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## Energy Savings: NGO Views on Priorities for EU Energy Savings Policy February 2011

Based on current efforts, the EU will miss its 2020 primary energy saving target by about half, despite the fact that practices and technologies to reach this or even a higher target already exist – and despite the widely understood benefits that closing the gap would entail such as potential cost savings of up to €78 billion annually by 2020<sup>1</sup>, a million new local, permanent jobs, improved security of supply, greater economic competitiveness and improvements in comfort, air quality, health and quality of life. Saving energy is also acknowledged as the best option for the EU to meet its climate targets in a fast, cost-effective way.

### 1. Making sure the 2020 energy savings target delivers its potential – and matches up to the EU's 2 degree climate commitment

- The EU needs to boost energy efficiency throughout the production, supply and consumption chain. This means **basing the 2020 target in the first instance on primary energy consumption** (before transformation into electricity and end-use fuels) to ensure economy-wide reductions in energy use. This overall target may then be subdivided.
- The EU's 2020 target is currently calculated on business as usual projections; however this is too vulnerable to fluctuating economic situations. The simplest solution is to **set a fixed reference year (e.g. 1990 or 2005) to give a clear sense of direction and help measure year by year progress.**
- Historically, progress in energy efficiency has led to increases in energy consumption as more uses are found for more efficient products. **Accounting for the rebound effect** means specifying net reductions in energy use.
- Energy efficiency is one of the most cost effective ways of reducing greenhouse gas emissions: the EU must set a long term energy savings target that is in line with the objective to reduce CO<sub>2</sub> emissions by 80-95% by 2050 and its **commitment to keeping global temperature rise below 2 degrees.**
- Financial savings, energy independence, job creation and emissions reductions are too important to fail. **Meeting the 2020 target must be mandatory, not optional.** A mandatory target is not by itself a golden solution - but experience shows it is needed to **provide the requisite focus, drive and ambition in setting and implementing the sub-targets**, policies and programmes that will overcome the barriers and allow us to enjoy all the benefits of an energy efficient economy.

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<sup>1</sup> "Energy Savings 2020. How to triple the impact of energy saving policies in Europe", Ecofys and Fraunhofer.



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## 2. The EU needs to coordinate up front financing for investments in energy savings

- The Commission's initiatives to **focus European energy taxation on the CO<sub>2</sub> content of fuels** must be pushed forward, and the revenues used to finance investments in energy efficiency and social compensatory measures.
- Member States should **introduce a tariff on electricity transmission to support energy efficiency**. Such "wire charges" are already standard in Belgium, Denmark, Greece, Italy, Portugal, and the Slovak Republic.
- Climate and energy saving 'proofing' should be introduced for all EU funds and budgets, to ensure that energy saving is automatically integrated within the conditionality for the granting of funds.
- Central and Eastern European Member States have the biggest potential to reduce energy use – and energy bills. **Much more of the European Union's structural funds must be used to implement energy saving measures**. The European Parliament has already called for an increase from 4% to 15% of each Member State's allocation under the European Regional Development Fund to energy efficient renovations.
- **EU and Member State subsidies must prioritise energy efficiency and renewables**. According to the most recent available figures from the European Environment Agency (EEA Technical report 1/2004), over 82% of EU-15 energy subsidies go to oil, gas, coal and nuclear power.
- Besides wire charges, **the power sector could provide additional funding for energy efficiency** (see also 3 below) through funds provided by suppliers as a means of fulfilling mandatory energy saving obligations, or fines for non-fulfilment of requirements.
- As important as the level of funding is the way it is used. Member States should **create a unique entry point, such as a National Energy Efficiency Fund, to collect streams of public funding and make them accessible to all potential beneficiaries**. This should streamline funding for energy efficiency and could even mean potential beneficiaries need prepare only one proposal to access the different streams, resulting in better absorption and quality control.
- These National Funds should be **designed to be self-sustaining (e.g. revolving) and to leverage private money in the capital market** (e.g. for third party financing for building renovation). The Funds should be tailored to the existing structures and financing practices in Member States, including using banks' networks to reach individuals. Best practices for combining the Funds with agencies or structures which help to **match finance with energy efficiency projects** should be studied and incorporated into a revised Energy Services Directive, to ensure a streamlined, gap-closing usage of money.
- EU research subsidies in the field of energy must also put greater emphasis on energy savings. In the EU budget 2007-2013, only 23% of the 7<sup>th</sup> Framework Programme research fund is devoted to energy efficiency and renewable energy together, compared to 54% for nuclear fission and fusion. **As a minimum, 50%**



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of the next energy research budget should focus on energy savings, energy efficiency and renewable energies.

### 3. The power sector must have a clearer role in delivering or facilitating energy savings with clear, target-linked obligations.

- The power sector must contribute to energy saving. **Full unbundling of supply companies from distribution networks** should be considered as part of the 2011 recast of the Energy Services Directive (ESD)<sup>2</sup> and/or a part of a harmonisation of public service obligations for energy savings within internal market directives.
- Until then, all Member States must ensure **obligations are imposed on energy companies** to contribute to the energy saving target - bearing in mind the inherent contradiction between assisting customers to reduce their energy consumption, and a business model under which a company makes its money from selling more kWh.
- Power sector involvement could take the form of companies acting as energy service companies (ESCOs) themselves (provided measures are in place to ensure competition from other players), outsourcing the delivery of savings to other players, or making financial contributions to energy efficiency funds. In all cases quality control of the measures should be ensured. A careful assessment by the European Commission is needed to determine which model(s) or combinations are the most effective in delivering energy savings.
- The most appropriate model for power sector obligations/energy service provision by power companies may vary according to the market structure in each Member State. The new Directive on Energy Efficiency and Savings should require Member States to make use of the most appropriate model from a set of clear options. However, **Community law should set safeguard criteria and minimum design requirements for obligation schemes established by MSs**, in order to ensure fair competition, quality control of measures, consumer protection and a minimum volume of savings that need to be achieved with the national scheme.

### 4. The Energy Services market must be unlocked.

- A thriving energy services market has great potential as a win-win delivery mechanism for energy savings, but experience to date is that **more initial support and guidance is needed to get it rolling**. A strong programme of legislative and non-legislative measures is needed, alongside power sector obligations, to build up this market, including inter alia:
  - Mandatory **Energy Efficiency Funds** which are either designed and managed so as to leverage private finance, or linked to institutions

<sup>2</sup> The ESD recast is foreseen in the Commission workplan for 2011 to take the form a new Directive on Energy Efficiency and Savings.



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which do this, combined with streamlining of third party financing options for ESCOs without their own means. In allocation of these funds, only high quality projects ensuring ambitious energy saving measures should be considered so as to avoid substandard savings projects which may lock in energy waste for many years.

- **National and/or regional hubs**, possibly linked to the Energy Efficiency Funds, to connect ESCOs, financing and business opportunities.
- **Targeted information and awareness raising** to both clients and providers about the possibilities of energy services and Energy Performance Contracting.
- **Aggregation of fragmented opportunities** (e.g. residential households, public authorities via public procurement or tendering rules) to provide larger and more attractive investment possibilities.
- Provision of **standardized quality control (monitoring and verification) procedures, definitions and documentation** (e.g. contracts).

## 5. Energy Efficiency in buildings needs greater support.

- Energy consumption of the existing building stock should be drastically reduced by stepping up the pace of renovations. In particular, national **renovation targets should be agreed** with the purpose of at least tripling renovation rates, meaning by renovation a “deep renovation” that brings the energy used for heating, cooling and water heating purposes in the refurbished building to a level comparable to the “passive house standard” (15kwh/sqm/year)<sup>3</sup>. To do so a comprehensive package of measures is needed:
  - National **Energy Efficiency Funds** (see above) should be used to direct and leverage resources towards financing the up-front cost of renovations.
  - National policies and/or local authorities should facilitate the **aggregation of renovation projects** in order to create the critical mass that ESCOs need to enter the market of refurbishing residential buildings.
  - **Energy performance contracting should be linked to the property** (i.e. the building to be refurbished) and not to the owner, in order to ensure that a possible intention to sell the building does not act as a barrier to renovation (see for example the Pays-As-You-Save scheme in the UK).
  - To make sure that the European building stock is progressively upgraded, it should become obligatory (after a reasonable period of incentives, information and encouragement) that the energy

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<sup>3</sup> The passive house standard is not possible for all buildings; in these cases alternative appropriate standards should be set.



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performance of a building be upgraded when a property changes owners or before it is made available to rent.

- The Energy Performance Certificate must become functional as a real check list to help the buildings' owner prioritize the energy efficiency measures to put in place. **Recommendations in the Energy Performance Certificate must be linked to an obligation to carry them out**, at the very least for public and commercial buildings.
- The Commission needs to elaborate guidelines for Member States on how a detailed application of "nearly zero energy buildings" definition in the EPBD should look in practice, in order to ensure maximal effectiveness of the definition and to avoid excessive discrepancies among the 27 national definitions.

## 6. Strengthened sectoral measures are needed for products.

- Greater synergy should be ensured between the Ecodesign and Energy Labelling directives when the Ecodesign Directive is revised in 2012, so as to foster greater dynamism in market transformation and more meaningful consumer information on energy savings. Ideally the Ecolabel and Green Public Procurement rules should also be revised at the same time and implemented in coordination with Ecodesign and Energy Labelling measures
- **Energy savings and efficiency** must be introduced as clear and compulsory **criteria in all tendering documents for public procurement** of goods and services.
- While **market surveillance** to ensure that energy using and energy related products comply with the Ecodesign directive is a national competence, the Commission should facilitate better collaboration of the Member States. In particular, it should establish an EU database of test results and non-compliant products, set a minimum level of fine across the EU, and ensure that any non-compliant product is removed from all 27 markets.
- The constant trend towards bigger and more powerful appliances and electronic products can be detrimental to the EU energy saving objectives. The Commission should **introduce progressivity in the definition of energy performance** and energy labelling requirements, meaning requirements that are tightened with increasing size/functionalities of a product and/or that fix a maximum limit for energy consumption for each product regardless of its size.
- Energy efficiency rules for boilers and water heaters have been blocked in negotiations for the last two years and must urgently be finalized with a high level of ambition. Through the modernization of its equipment and heating industry the EU can be twice as energy efficient as it is today.

## 7. Use technical standards, economic incentives and EU funds to cut transport's energy consumption.



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- All tools available including vehicle and fuel taxation, minimum vehicle efficiency standards, informational and behavioural measures and public transport and cycling improvements should be employed to stem and reverse the growth in emissions and energy use from this sector. Particular attention must be given to:
  - Introduction within the review of the EU budget of **energy and climate proofing of transport projects**, so that every project (co)funded with EU money reduces the energy consumption of transport, and the emphasis of EU spending is on demand management measures and 'soft' modes of mobility. The creation of an earmarked transport fund should be avoided.
  - **Internalization of external costs in all modes of transport**, with priority for aviation and lorries. Decisive steps should be taken including the introduction of minimum road charge levels for trucks in the next review of the Eurovignette directive, energy taxation in aviation, VAT on air tickets, and making road charging projects eligible for EU funds.
  - **Using the review of the Directive on the taxation of energy products** to introduce a minimum energy tax on kerosene for intra-EU flights, to raise minimum tax levels of road fuels, particularly for diesel, and introduce a GHG-based tax system for biofuels.
  - Reviewing progress towards the EU's **CO<sub>2</sub> emission standards for cars** by the end of 2011, and proposing modalities for the implementation of the 2020 target. Further targets of 60 gCO<sub>2</sub>/km by 2025, and 50 gCO<sub>2</sub>/km by 2030 should be set to provide the sector with long-term planning security.
  - Inclusion of **shipping** in the ETS and the introduction of mandatory slow steaming for ships.
  - Further improvements in **the efficiency of light vehicles and their use** by introducing a speed limiter for vans, rules for company car taxation, a strongly improved CO<sub>2</sub> labelling directive, improved air conditioning systems, and fuel consumption meters
  - A comprehensive strategy for lowering the fuel consumption and CO<sub>2</sub> emissions of **heavy duty vehicles**.
  - Capturing the energy efficiency potential of **electric transport** by stepping up R&D and demonstrations (not just for electric cars, but also trucks and electrified infrastructure) and developing standards for infrastructure and charging stations. The additional electricity demand should be met by renewable sources.
  - More stringent EU wide sustainability criteria for biofuels is required, based on a correct accounting of carbon emissions associated with its use, most importantly by including indirect land use change. This should lead to robust and feedstock-specific 'ILUC factors' that reflect emissions from indirect land use change for different crops.



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## 8. Differentiated measures are needed to ensure optimal efficiency in large and small industry.

- Industrial energy efficiency can be improved by inter alia upgrading and proper maintenance of energy efficient equipment and facilities, improved waste heat recovery, and behavioural and structural changes (e.g. reprogramming default thermostat or compressed air system settings).
- Appropriate incentives, obligations and supporting measures should be introduced to ensure that all energy saving opportunities are identified and realized in large and small enterprises – noting that the EU ETS is not delivering the needed long term investment in energy savings in energy intensive industries, and that many barriers including information, awareness and resource availability prevent adequate attention to energy use in SMEs. Measures should include:
  - **Mandatory independent energy audits** of the facilities of companies above a given size, and an obligation to carry out all identified measures with a pay-back time of 7-10 years.
  - Promotion of effective and comprehensive **energy management systems**, and compilation and widespread dissemination of best practices for different industrial sectors. Tax breaks or other incentives for companies which introduce such systems, possibly supported by smart metering (once technical and social assessments of the contribution of smart meters have been made).
  - **Third party verification** of the achievements of energy management practices.
  - Ambitious minimum performance standards for industrial equipment.
  - Awareness campaigns and access to capital for upfront costs for SMEs.

For further information please contact:

Climate Action Network Europe : Erica Hope - [erica@caneurope.org](mailto:erica@caneurope.org), +32 2 894 4671

European Environmental Bureau : Catherine Pearce - [catherine.pearce@eeb.org](mailto:catherine.pearce@eeb.org), +32 2 289 1302

Friends of the Earth Europe : Brook Riley - [brook.riley@foeeurope.org](mailto:brook.riley@foeeurope.org), +32 2 893 1030

WWF European Policy Office : Arianna Vitali Roscini - [avitali@wwfepo.org](mailto:avitali@wwfepo.org), +32 2 743 8816