Policy Paper

On the road for a bad deal on Energy Efficiency?

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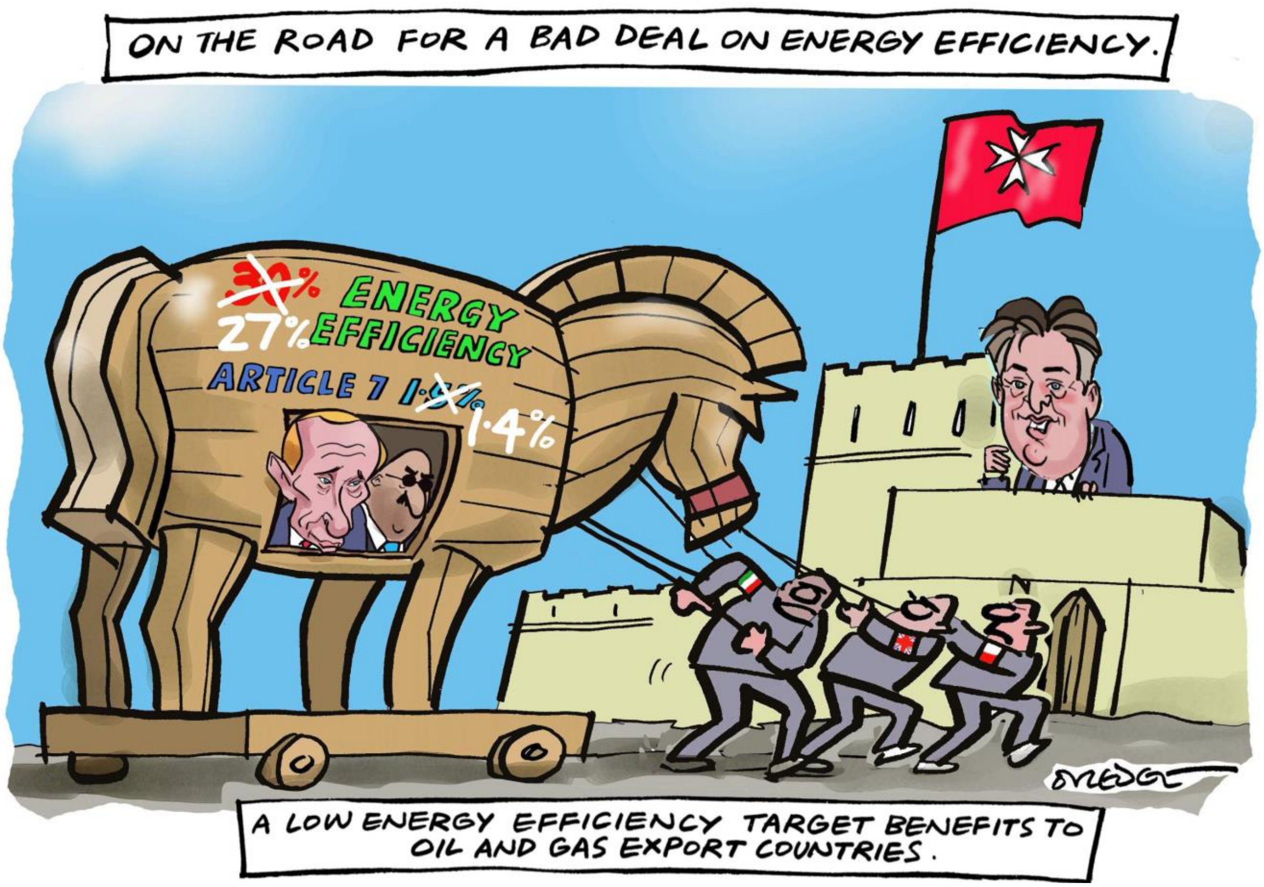
Introduction

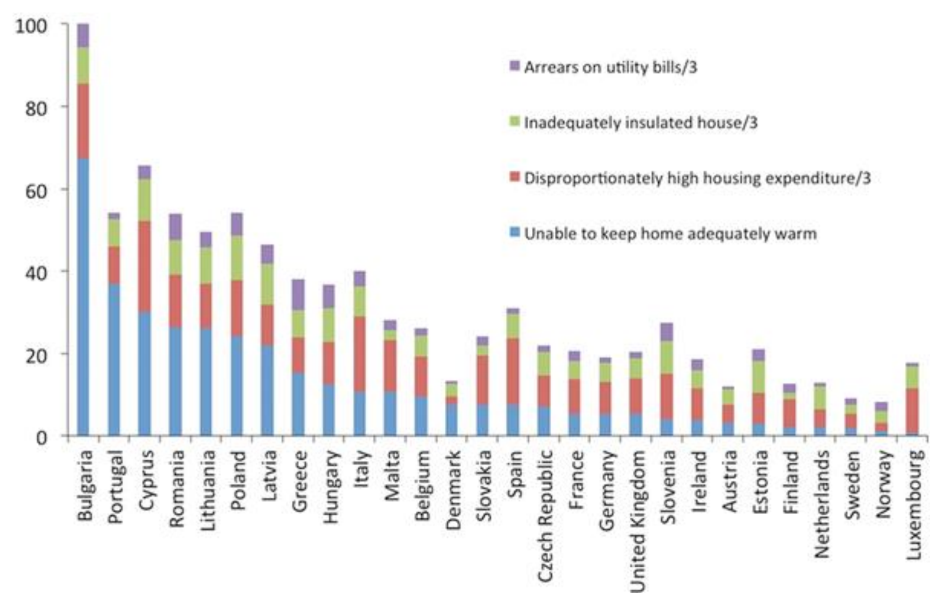
On Thursday 18 May, energy ministers from 28 EU Member States will gather in beautiful Valletta for an informal meeting. These meetings are not officially about EU law-making, but often their agenda are precisely linked to an ongoing legislative process. The Valletta meeting of tomorrow does not make an exception: some ministers will **join with the objective to destroy EU's ambition on energy efficiency** and thus hinder the credibility of their fellow ministers for environment who are in parallel trying to defend EU leadership at the UNFCCC conference in Bonn.

1. What is at stake?



President Jean-Claude Juncker and his energy “climate knight" Miguel Arias Cañete have presented in November 2016 a somewhat ambitious legislation on energy efficiency, with two main pillars: a **binding 30% target for 2030** and, equally important, an **energy saving obligation of 1.5% annually in article 7**. This proposal goes further in ambition than the infamous European Council of October 2014. President Juncker has understood the European Union needs to go higher on energy efficiency for several reasons. Not only to be in line with the Paris agreement but also because it desperately needs to reduce its gas and oil import dependency. Even more, Commission knows that the EU needs to re-invest into its economy to create growth, jobs and reduce energy poverty in Europe. In a certain sense, he had no choice but to propose at least 30% to meet the promise he made to the European Parliament when he was designated President in July 2014.

In the legislative process, Member States, the Commission and the European Parliament are mingling quite actively. Progressive forces from all sides need to fight the interest of an army made of those who earn today a lot of money thanks to an inefficient building stock, inefficient road transport system, inefficient white goods and electronic devices. This **lobby is very influential in some Member States**. How can we explain that a centre-left Italian government is leading the battle against a more energy efficient EU and an energy efficient Italian economy? Would the explanation come from ENI, the Italian State-owned oil and gas company, which seeks to keep its sales up? It is also not a secret that most European utilities do not appreciate the European eco-design policies nor the energy saving obligation (Article 7) which shrinks electricity market in Europe and drives them to adapt their business model from selling kWh to providing energy efficiency services to customers. In **France**, the UFE (the French electricity association who serves as a cover for EDF and Engie) openly calls for these energy savings obligations to be only "indicative". Same goes for CEZ, the almighty **Czech** State-owned company, who has found in its national government the leader of the current rebellion against the Commission’s proposal. **Poland, Slovenia, Bulgaria**, and of course **Hungary** also join this conservative movement. This is all the more illogic that these same Member States are struggling with energy poverty! Why refusing to admit that energy efficiency investments could lift millions of their citizens out of unsustainable high energy consumption dwellings due reduce their considerable energy bills?



Source: *Energy poverty in the European Union: landscapes of vulnerability*, Stefan Bouzarovski, School of Environment and Development, University of Manchester, Manchester, United Kingdom, 20 August 2013.

2. A badly inspired Maltese presidency opening the door to the Trojan horse

The Maltese Presidency, who was recently helpful to strike a reasonably good deal on the security of gas supply, seems much less inspired this time. The energy ministry is said to prepare for a compromise which would rather be qualified of a very bad deal by **proposing to turn the target from "binding" into "indicative"** and **weakening article 7** by reducing the ambition to 1.4% yearly instead of 1.5%. Even worse, the Maltese also want to open article 7 to massive double counting loopholes such as renewable investments (e.g. solar thermal or solar electricity or biomass) being accounted both for the target achievement in the RES directive and in the efficiency directive. Some first rough estimations show that this could de facto weaken article 7 ambition to as low as 1.1%!

Progressive forces should organise a blocking minority against the weakening of the proposal. These governments still remember that they have signed something called the "Paris agreement" a year ago, in which energy efficiency is playing a major role. **Sweden** and **Denmark** are front runners, together with **Germany**, **Luxembourg** and a surprisingly outspoken **Ireland**, which better than most other countries has understood that energy efficiency is a win-win story. Where will the **French government** stand? We can't imagine newly appointed energy minister Nicolas Hulot fight against energy efficiency ambition...

Far away from conservative utilities, **institutional investors are ready** to invest massively in the energy transition: no later than yesterday, pension funds representing 18 trillion euros of investment (equivalent to more than the EU's GDP, six times Germany's) wrote a letter to the Commission expressing their support to high energy efficiency ambition.

3. Trouble-makers from Eurostat

For those who think that European bureaucrats are not powerful, here come a big surprise. After EU policy-makers established last year the Juncker plan (21 billion euros of guarantees from both European Union and European Investment Bank budgets) to lever fifteen times more of private investment into the European infrastructure and notably energy efficiency, EUROSTAT civil servants decided in August 2015 that public entities (both national and local) are not allowed to enter in energy performance contracts (EPC) with third parties to pay cheaper electricity, oil and gas bills to supply power and heat to their inefficient public buildings! If they do so, the contractual arrangement is considered a "debt" in their balance sheet, adding up to the public debt fiercely controlled within the Eurozone. This interpretation of accounting rules must be reversed. Letters by Member States (notably Spain, Belgium, Netherlands), investors, Members of the European Parliament were not powerful enough to change this decision at this stage. Despite promises from vice-presidents Katainen and Sefcovic, from commissioner Arias Canete, and Theyssen, Eurostat is still not moving by an inch. A formal discussion to change this very unhelpful ruling is missing.

4. What to do in Malta?

Because higher ambition on energy efficiency and a smoother enabling environment go together in one hand, we propose that the ministers informally gathered in Malta:

- Maintain the ambition of at **least 30% binding target** for energy efficiency in 2030 and **1.5% effective energy saving** obligation in Article 7;

- Strengthening the **political leverage on Eurostat** through the adoption of a political declaration calling to bring the necessary capital to a stable energy efficiency market in Europe via a reform of the energy performance contract status in public accounting rules.

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