



BING comments on the Commission consultation on financing energy efficiency

BING represents the rigid polyurethane insulation industry in Europe. Polyurethane is the most efficient insulation material available, enabling effective insulation with minimal occupation of space.

(1) The EU is facing ambitious targets in terms of Energy Efficiency (EE) for 2020. To which degree will financing be the key issue for EE in the short and long term?

Financing is and will remain one of the major issues for energy efficiency. Investments in energy efficiency increase the initial cost of new buildings and, even more so, of retrofitting existing buildings. Although life cycle cost may be lower and additional investments may offer a reasonable pay-back period, many investors are unwilling or unable to bear the additional initial cost.

As to public authorities, they frequently lack the financial resources to improve their own buildings' efficiency. This problem is worsened by the fact that the initial investments in efficiency are covered by a different budget than the running costs of buildings.

Specific financial solutions tailor-made to the needs of the different target groups would help unlock the situation.

(2) What are the investment trends in your sector? How would these trends evolve in the medium (2015) and long term (2020+)?

The insulation materials industry steadily extended production facilities over the past years. Markets are expected to continue their growth in spite of cyclical set-backs. The main drivers include new building regulations lifting efficiency requirements for new buildings, rapidly rising energy prices and the general need for additional dwellings.

The expected growth rates vary considerably between Member States. The UK forecasts a spectacular development with a volume of insulation per year increasing from about 13,000 m³ to about 49 million m³ in 2020¹.

¹ Market transformation programme "BNIW01 Insulation industry – product and market overview", 2007, page 13

Logically, investments in production capacity are the consequence of increasing market demand and, therefore, increasing investments in the insulation of new and existing buildings. Hence, the insulation level of buildings is gradually improving. The differences in growth rates hint at significant differences in national requirements and the insulation levels already achieved. Although insulation is generally considered as the most cost effective way to save energy (see studies of McKinsey, CEPS and Ecofys), very few new buildings today achieve the economically most favourable insulation level. Similar statements could be made for other building components / systems (windows, HVAC etc.). Obviously, apart from financing, a number of other aspects hamper the uptake of energy-efficient technologies:

- Lack of ambition in national legislation.
- Lack of awareness amongst investors and end-users;
- Low priority as energy costs still account for a minor part of overall spending of most private house owners and SMEs;
- Lack of life cycle thinking in construction (both service providers and clients);
- Owner-user dilemma;
- Fragmentation of the construction supply chain;
- Lack of qualified workers in the construction and energy services industries;

A number of these issues are being addressed by European and national legislation (see also question 5). It can therefore be expected that building insulation measures will continue to grow over the next 10-15 years. However, without additional measures, only a minor part of the cost-efficient potential will be tapped.

(3) How is the financing of these investments evolving (past, present, future)? Which financial instruments are most suitable for current Low Carbon Energy (LCE)? Would new financial instruments be needed to reach our goals? Is there a role for the EU?

In the past and at present, investments in better building insulation are mainly covered by traditional sources including private funds, bank loans and, depending on the country, public support schemes. The share of the latter is generally the smallest, but gradually increasing.

In the future, innovative instruments are required to stimulate the market. In particular private banks should be encouraged to develop “green lending”, i.e. lower interest rates for credits used to purchase very efficient buildings or invest in energy efficiency. To reduce the risk, public (energy efficiency) funds could guarantee all or a part of the credit sum.

Public and private sources should also co-operate in the field of financing energy services. Most ESCOs are too small to pre-finance efficiency measures. Investment costs could be lowered by leasing technical equipment. Again, banks should provide financing supported by public guarantees.

It should be possible in all Member States (and not only the new entrants) to use structural funds for energy efficiency measures. The EIB and the EBRD have developed interesting packages for investments in efficiency. This should be extended. Finally, the Commission should take up the French-British initiative and propose the possibility of applying reduced VAT rates on energy saving / efficient products.

(4) Could you please enumerate and rank the main risks that you take into account when planning a new investment? How does the risk profile of the investment affect its financing?

From an insulants manufacturer's point of view, the main risks include

- the cyclical behavior of construction markets

Construction markets are regularly subject to boom periods and sudden downswings. Investment decisions are often taken during growth periods when production capacity is unable to meet demand. By the time, the new production capacity is available, markets may be declining and the additional capacity cannot be exploited profitably. Current examples include the contracting construction markets of Spain, Ireland and the UK.

- the lack of a clear long-term policy framework in a number of countries.

Investment security, research and training / qualification measures require a long-term political framework with clear milestones (for example relating to tightening efficiency requirements). Support schemes should be independent from annual public budgets to avoid stop-and-go effects.

From a real estate investor's point of view, the main risks include

- the level of uncertainty relating to the willingness of construction clients to bear the higher initial investment costs for efficient buildings and
- the possible unwillingness of banks to provide higher lending and accept a potentially higher risk for the construction / purchase of efficient buildings.

Public subsidies are usually not risk sensitive. They are granted if a particular technology or product is installed. On the other hand, private banks will always assess the risk and ask for a risk premium or refuse lending at all.

(5) The EE Action Plan – adopted by the Commission in 2006 – established a series of measures which were considered cost effective. Is there anything needed from the investment field to make them happen?

Over the past years, the EU put a number of ambitious measures in place, which will undoubtedly give a boost to energy efficiency. They include the following:

- **energy performance certificates** as introduced by the EPBD. The revised EPBD should introduce a ranking of the improvement measures according to the savings potential.
- The requirement for large buildings undergoing **major renovation** to meet minimum efficiency requirements. The revised EPBD should remove the 1000 sqm threshold completely and introduce a clear obligation for the major building components / systems (building shell, HVAC etc.) to meet minimum efficiency requirements if they undergo individual renovation / replacement.
- The measures introduced by the ESD to **promote energy services**. The Commission and Member States should not oblige energy distributors to provide energy services as their core business is energy sales. As many of them enjoy a quasi monopolistic or oligopolistic position in their respective country, they should not be given the control of the energy efficiency market on top of that. Rather, the legislator should encourage the emergence of a large number of specialised ESCOs of all sizes.
- The **9 % energy savings** commitment in the ESD combined with the national energy efficiency action plans.

- **Labelling directive;**
- The **Eco-design directive** has an important role to play for energy using-products. However, BING opposes its extension to non-energy-using products such as insulation material. Such materials are no stand-alone products and it would be extremely difficult to define sensible parameters. λ values could be one but this would be difficult to agree in the industry. Embodied energy could be another, but it does not say anything about the performance of the product and the amount of energy it will save over its lifetime. In other words, the performance of insulation material fully depends on the building design, its orientation and construction. What is of interest to the owner, user and to the society, is the performance of the end-product – the building. Fixing additional requirements for the individual component level is counterproductive, costly and confusing. The EPBD has introduced the energy performance certificate and DG ENT has mandated standardization work to measure the sustainability of buildings and develop environmental product declarations. DG ENVI has mandated work on an eco-label for buildings. This proliferation of labels and systems will jeopardize the credibility of the whole idea. On the other hand, BING supports the considerations of DG TREN to develop European performance benchmarks for buildings. National or European minimum requirements should be tightened regularly to achieve passive house levels by 2015 for new buildings. This means, that the legislator should fix maximum energy consumption levels per sqm/a for the whole building and similar requirements (for ex. U values) for major components / systems (not the individual product) such as building shell, HVAC etc. This approach is far more reality-based, as it looks at the end result, includes a life cycle approach, is technology neutral and stimulates innovation.

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