RENOVATE EUROPE

BRIEFING NOTE
4/2017

Energy renovations can make the next MFF "Europe's biggest jobs programme'

Energy efficiency is one of the biggest success stories of the current EU budget, displacing railways as the largest recipient of low carbon funding (at 34% of the total). By 2020, two million European workers are expected to be employed in the sector.

It is thought that **energy efficiency funding allocations have tripled under this Multi-Annual Financial Framework (MFF)** compared to the last one.

Welcome as this is, the present budget is not expected to meet its target of spending 20% of monies on green projects. And with Brexit and new spending priorities potentially rending a €24bn hole in the post-2020 MFF, it is time to take stock and prepare for the road ahead.

The budget we're in...

The EU's climate ambition in this budgetary round can be partly measured by the Cohesion Policy monies it has made available for emissions mitigation. **A fifth of all EU spending is earmarked for green policies**, and cohesion funds are a key delivery mechanism, targeted on the countries and regions where help is most needed.

Under the umbrella of the European Strategic Investment Fund, €68.8bn of revenues are being disbursed by the Cohesion Fund, the European Research and Development Fund and European Social Fund. When targeted rural development programmes and complimentary national, public and private co-financing is included, the figure is close to €98bn.

What better way to reach out to EU citizens than by improving their health, comfort and wellbeing in their homes, their offices, their schools, where we spend up to 90% of our time, while simultaneously creating quality jobs for local SMEs, improving social inclusion through urban regeneration and skills development, and boosting European competitiveness through innovation and digitalization?

The renovations industry has become a formidable destination for this spending, with confirmed allocations of €13.4bn to public and €5.2bn to residential buildings. Demand for the private finance for energy efficiency (PF4EE) programme is also significantly higher than expected.

More broadly, low carbon investment is outperforming other sectors, with climate related projects accounting for 28% of all cohesion and ERDF spending in a recent commission stock-take – compared to 19% the year before.

Under President Juncker, EU funding policy has evolved towards the use of **financing instruments** - where paybacks of investment are likely. **Energy efficiency funding has benefited from some €4.8bn of money provided through financial instruments**. But this has not interfered with the continued dispersal of grants to poorer countries.

Despite fears that some EU states would not reach their earmarking targets for climate goals, they are currently over-allocating to the green energy sector by a third. Member States have slated €40bn of spending for low carbon measures, compared to the €27bn originally pencilled in by the commission.

Within ESIF for example, Member States and regions are planning to spend €6.4bn on (mostly energy efficiency) low carbon measures, an eight-fold increase on the last budget.

Officials credit ex ante conditionalities linking investments to the meeting of goals under the Energy Performance of Buildings Directive, national renewable action plans etc. **But action for climate measures in the next MFF is vital now, if the low carbon transformation is to be continued.**

Isabelle Thomas, who sits on parliament's budget committee, said: “In the next MFF, we need to tackle the questions of climate change and ecological transition in the very beginning of the programs, to avoid dispersion and make sure that funds are well used on it.”

Where other forms of fiscal stimulus may export jobs (or import products) from outside Europe, energy renovations are guaranteed to create employment in Europe, improving local economies and addressing inequalities.

Commission officials are already gathering information and brainstorming priorities for the next funding round.

A question of timing

The Commission Vice-President Gunther Oettinger has toured Europe's capitals to sound out national appetites for the post-2020 period, ahead of a **first commission report expected next May**.

As a former Energy Commissioner, some MEPs believe Oettinger will be aware of the vital role that renovations must play if Europe's housing stock is to achieve zero carbon emissions by 2050. Others suspect that he is already trying to gain consensus for where the axe may fall. Much will depend on the developing balance of forces in Europe's austerity and populism-hit capitals.

MEPs in the **European Parliament are preparing two 'own initiative' reports for February 2018**, which will kickstart the debate in earnest.

One of the non-binding papers will be a framework proposal, outlining basic elements for sectoral policies in parliament's Budget committee. It should be voted on in Plenary in March. The other will be an “own resources” report, which S&D MEPs hope will break the current 1-2% ceiling of EU GDP budgetary spending, and offer Member States more flexibility and genuine 'own resources'.

While Parliament ploughs this furrow, the **European Council will also meet in February to decide their own budget agenda, with a view to finalising the process by the first quarter of 2019**, before parliamentary elections, and Brexit.

In May 2018, a European Commission's report will start to pull the threads together, with concrete sectoral regulations expected to hove into view around June or July. The rest of 2018 will be dedicated to thrashing out common positions.

If all goes to plan, **a final European Council decision should be ready by March or April 2019**, which will then be sent to Parliament and the Commission for approval. The reality though is that MEPs will challenge this agenda, which has been stretched out to accommodate Brexit and new funding commitments.

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"It's far too late," said Isabelle Thomas, who is also Vice-Chair of the S&Ds in Parliament. "The Council wants to decide alone. Of course, we won't let it happen."

"The problem," added Budget Committee Member, Jan Olbrycht, one of the Parliament's key actors on MFF "is that **if we don't finish before the elections, the next parliament will take it on board** and, probably, it will reopen everything. It will take months to complete and be very difficult to have ready by the beginning of 2021 - which is absolutely necessary."

Brexit, and the shape of the elephant

Brexit has already delayed the commission's plan to publish an MFF paper this autumn. Unless the UK agrees to continue its current payments for single market access, it will leave a hole of around €10-12bn in the next MFF when it eventually departs. On top of that, the next budget will contain €10-14bn of new financial commitments to common defence and immigration/border security.

In that context, **the coming MFF discussion will likely hinge on whether Member States can - collectively or selectively - be persuaded to increase their current level of contributions, where the axe should fall if spending is to be cut, and whether a new "own resources" system can be set up**.

A restructuring of current budgetary arrangements is one aspect of the debate but some spending reductions seem inevitable, with three likely candidates.

Thomas said: "The Council would like to cut traditional policies as cohesion, research and agriculture to finance new priorities such as security and defense. This is not the opinion of the European Parliament."

The **20% ring-fencing of climate spending appears safe**, but a battle over cohesion spending looks likely, particularly where its targeted redistributive aims conflict with the creation of "centres of excellence" that may not be so geographically defined.

"This will be the battle," Olbrycht said, "because if we have to reduce the budget, do we start with cohesion, agriculture or research?"

To the regions?

A developing consensus holds that research spending (via whatever follows Horizon 2020) should be protected, but the future of regional and structural funds is less clear. One question already being asked is whether **shrinking resources should be focused on Europe's poorest regions**?

Certainly, deprived areas such as Eastern Europe and northern Europe's inner cities receive outsized benefits from energy renovations - in tackling fuel poverty, poor health and urban regeneration issues, as well as improving energy security and cutting greenhouse gas emissions.

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What better way to reach out to EU citizens than by improving their health, comfort and wellbeing in their homes, their offices, their schools, where we spend up to 90% of our time, while **simultaneously creating quality jobs for local SMEs, improving social inclusion through urban regeneration and skills development, and boosting European competitiveness through innovation and digitalization?**

The European Investment Bank is working on a new platform for low carbon investments in cities, and EFSI also has scope to make similar urban funding forays.

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But MEPs and commission officials stress that in sectors such as public sector residential housing, financial instruments may not be appropriate.

"If we really want an efficient energy transition, we have to support it on the European scale," said Thomas, "particularly with efforts towards Eastern countries, in order to make them end with energy mixes [less] based on carbon."

She added: "For the European Parliament, there is no way to cut solidarity and investment policies. On the contrary, we [will] fight to strengthen them**. Cohesion policy is the first investment policy of the EU and the main instrument of its regional convergence**."

Earmarking

The planned 20% ringfence of revenues for green measures in this budget is likely to fall short by around by one percent but, thankfully, MEPs say that the measure will probably be carried over into the next MFF.

Jens Geier, the S&D vice-chair of the European Parliament's Budget Committee believes that **a continuation of earmarking funds for energy renovations "absolutely makes sense**", while Claude Turmes, the veteran Green MEP, saw earmarking as "an essential and positive move."

"**You need earmarking, otherwise energy efficiency will not happen**," he said.

> *No other area in the EU economy can create more local jobs than renovation and the modernisation of existing building stock.*

Linkages between energy efficiency objectives and cohesion spending will likely continue into the next MFF, albeit with a potentially greater emphasis on cities, and regional authorities.

Olbrycht said that the 20% earmark would "absolutely" continue. "But the question is how it should be translated into concrete policies."

"If an actor receives EU support or money or guarantees from a fund, they should follow the EU's principles, rules and criteria," he said, "and **energy efficiency should be one of the most important criteria for any investment, with or without EU money.**"

Could energy renovations offer a way forward?

The Green Group in Parliament already has its sights set on the next financial round and is pushing for the streamlining of all EU structural funds, an expansion of EFSI monies, increased support from EU development banks and the linking of cohesion funding to member states progress in meeting the 2030 climate targets.

Finance ministers are now considered more important than energy ministers and will be the focus of pre-budget lobbying with likely issues including a Scandinavian-style taxing of oil and gas in the heating and cooling sector.

"We are in a unique moment where it would not even be noticed because oil and gas prices are so low, and where we could trigger what I would call the EU's biggest jobs programme," Turmes said

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As battle lines drawn ahead of the pre-MFF haggling, it is heartening to see **energy renovations being recognised as the sharpest arrow in the EU's quiver - for addressing unemployment, greenhouse gas emissions, indoor public health and fuel poverty**.

Let's not forget that when the inevitable belt-tightening counterblast arrives.

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Renovate Europe is a political communications campaign with the ambition to reduce the energy demand of the building stock in the EU by 80% by 2050 compared to 2005 levels through legislation and ambitious renovation programmes. This will bring the energy performance of the entire building stock in the EU to a Nearly Zero Energy (NZEB) performance level.

Renovate Europe brings together 36 partners from across the building value chain (trade associations, companies, trade unions, city networks and 14 national partners):