

A 420 bn€ European investment program for the 14/10/14 ECOFIN council Massive financing of the Energy transition in schools, hospitals, etc. for a competitive EU

The SFTE¹ project aims to create a broad partnership between public and private entities to stimulate the economy and deliver between 180 and 420 bn€ of investments in Europe in 10 years for medium-size projects (in the order of 1 M€) that are necessary to the energy transition. It will enable EU banks to finance the energy renovation of public buildings under excellent - cheap and long-term - conditions. It is a strategic opportunity for the 300 bn€ investment program announced by President Juncker.

A feasibility study has been conducted by the AFTER association with an exemplary consortium of public and private stakeholders² in France: local authorities, industrials, banks/financial institutions, NGOs, Plan Bâtiment Durable. Many European institutions have expressed their interest in the project. Now the implementation of the SFTE requires a commitment of European and national public authorities. Such a proactive real estate policy would significantly contribute to economic recovery, reduce charges, CO2 emissions and the external deficit, improve energy independence and could quickly result in job creations.

I. Context and issues

1. Economic environment

The economic environment has considerably changed in the last year. The inflation rate in the euro area is extremely low, and long-term interest rates have reached unknown territories for the last 200 years. The ECB is attempting to massively boost the funding of the “real economy” through banks. However, there is yet no recovery of lending, and Europe is facing a worrying lack of quality long-term investment. Policy decision-makers are wondering how their long-term projects will ever be funded. Besides, the ECB’s manifest will to act on exchange rates should further increase imported energy prices. In this context, many institutions are calling for increased infrastructure investment: EC, EIB, ECB, G20, OECD, IMF... The key fact recognized by these organizations is the need to “do it now” and “choose the right projects”³.

2. Public buildings energy efficiency as a priority quality investment

As they represent 40% of energy consumption in Europe, buildings are a major segment of the energy transition meaning hundreds of bn€. The share of public buildings (excluding social housing) is estimated around 10% of total floor areas. The SFTE project builds on the duty of European, national and local authorities to set an example and stimulate quality investments. In Europe, public buildings (schools, offices, hospitals...) are estimated to be a largely untapped potential of renovations made financially sustainable without any subsidy by energy savings alone for at least 180 bn€, that is to say +120 bn€ more than with the current trend (BAU of 60 bn€ or even less in 10 years). This untapped potential, which urgently needs to be more precisely assessed in EU, justifies a public intervention:

- Public accounting standards are weighing on projects and their “conventional” financing;
- Project finance mechanisms remain ill-suited to these medium-size operations;
- Stimulating the demand (currently weak and politically undervalued) requires a clearly articulated long-term real estate strategy and the key projects to achieve it;
- Current financing capacities and regulations would be insufficient with such a proactive policy.

3. An unchallenged potential of socio-economic benefits

Energy renovations bring key socio-economic benefits:

- local job creation, in part through SMEs: with about 15 jobs/1year per M€ invested, a 420 bn€ program in public buildings would result in more than 600 000 additional jobs/1year during 10 years;
- the development of an industry of excellence which will contribute to EU exports in the worldwide growing energy efficiency markets;
- an improvement of the EU highly skewed energy trade balance;
- energy independence⁴: the EU-28 imports more than 50% of the energy it consumes and the Ukraine crisis is currently underlining Europe’s vulnerability;

¹ Société de Financement de la Transition Energétique ; Energy Shift Financing Agency (ESFA) in English.

² We want to thank the SFTE consortium (Aquitaine, ARKEA, CDC, Centre, Crédit Agricole, EDF, ECF, FFB, FNH, GDF SUEZ, BPCE, Landes, Meridiam, Ministry of Ecology SD & Energy, Rhône-Alpes, Schneider, The Shift Project, Veolia, Vinci) and the many specialists who have already agreed to contribute to the SFTE works with about 200 experts, stakeholders and officials interviewed in France and Europe.

³ IMF. [The Time Is Right for an Infrastructure Push](#). September 2014.

⁴ Energy consumption for heating in public buildings: 50% gas and 20% fuel oil (France).

- investments spurring the EU's competitiveness: fossil fuels imports represent more than 1 bn€ per day but energy savings would allow the EU to use these resources to generate more added value;
- the exemplary reduction of CO2 emissions in the context of COP21, in accordance with European goals⁵

180 bn€ of investments in public buildings (+120 bn€/BAU) would reduce by 20% their energy consumption. 420 bn€ (+360bn€/BAU) would reduce by 40% their CO2 emissions.

II. SFTE's proposal of a quality investment program for a EU economic recovery plan

1. A key European dimension

We have seen a broad interest for innovative proposals through our European contacts: the EIB, the European Commission (DGs ENER, CLIMA, MARKT, ECFIN...), KfW, NGOs... European organizations also express a strong interest in the development of energy efficient buildings. The next ECOFIN council (14/10/14) will review a number of quality investments in infrastructures. At this occasion, the SFTE's proposal could be discussed as a highly relevant energy-climate project for a European economic recovery plan. It is proposed to start the SFTE project as a national experiment, but its scope will be European.

2. High-quality financial engineering

Our proposals respond to the need for long-term financing of the European economy⁶ focusing on the "real economy", without increasing the public debt. They will improve the traceability of this financing to facilitate a safe and transparent monitoring of the scheme by public authorities. Another note from AFTER describes the SFTE scheme and its broad partnership between public and private entities.

3. A strong commitment from European and national public authorities

The SFTE project requires a strong mobilization of public authorities in the EU and in Member States. Their commitment is essential to improve public project management capabilities, pool operations, favor economies of scale, standardize projects, and eventually achieve a massive change of scale in the volume of operations. As recently stated by the G20: "Governments should build public sector institutional capability in project development and implementation, and foster greater knowledge sharing and transparency across levels of government, jurisdictions, the private sector and other stakeholders."⁷ In addition, the use of energy saving performance commitments will allow reliable and demanding public policy assessments. The program should be largely publicized to make it easier for local elected representatives to promote their energy efficiency projects politically.

III. EU NEXT STEPS

We hope the Commission will put the energy renovation of public buildings at the top of the agenda in its selection of quality investments. The SFTE project now requires a strong mobilization of all stakeholders⁸:

1. European Union

- Public buildings selected as a quality investment target for the EU at the 14/10/14 ECOFIN Council
- Creation of a dedicated task-force including the EIB on this very subject
- Creation of a European knowledge sharing platform: observatory network on energy expenses, renovations, energy saving performance contracts, costs/savings, RFP, energy efficiency techniques...

2. National public authorities

- National public building strategy with strengthening of public project development capabilities
- Massive pipeline of projects selected by national and local authorities

3. European private sector

- Commitment and support by industrials, construction SMEs, banks and institutional investors

⁵ European Commission. [2020 climate and energy package](#) and [2030 framework for climate and energy policies](#).

⁶ European Commission. [Communication on long term financing of the European economy](#). March 2014.

⁷ G20. [A set of Leading Practices on Promoting and Prioritising Quality Investment](#). September 2014.

⁸ Another note gives more details on the technical agenda. See "420 Bn€ quality investments for EU – technical"