

A €420bn investment programme for the European Union Massive financing of the energy transition in schools, hospitals, etc. for a competitive EU

The SFTE¹ project aims to establish a broad partnership between public and private entities to stimulate the economy and deliver between €180bn and €420bn of investment in Europe over 10 years for the benefit of medium-sized projects (in the order of €1m) that are necessary for 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 €300bn investment programme 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, industry players, banks/financial institutions, NGOs, Plan Bâtiment Durable³. Many European institutions have expressed their interest in the initiative. Now the implementation of the SFTE project requires a commitment from European and national public authorities. Such a proactive real-estate policy would significantly contribute to economic recovery, cut costs, CO₂ emissions and the external deficit, and improve energy independence, and could quickly create jobs.

1. Background and issues

a. Economic environment

The economic environment has changed considerably over the past year. The inflation rate in the euro area is extremely low, and long-term interest rates have entered territory uncharted for the past 200 years. The ECB is attempting to massively boost the funding of the “real economy” through banks. However, the lending market has yet to recover, 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. In addition, the ECB’s clear desire to act on exchange rates should further increase imported energy prices. In this context, many institutions – EC, EIB, ECB, G20, OECD, IMF and others – are calling for increased infrastructure investment. The key fact recognised by these organisations is the need to “do it now” and to “choose the right projects”⁴.

b. Prioritising the energy efficiency of public buildings as a quality investment

Since buildings represent 40% of energy consumption in Europe, they are a major segment of the energy transition, accounting for hundreds of billions of euros. The share of public buildings (excluding social housing) is estimated at around 10% of total surface area. The SFTE project builds on the duty of European, national and local authorities to set an example and stimulate quality investment. In Europe, public buildings (schools, offices, hospitals and so on) are estimated to be a largely untapped source of potential of financially sustainable renovation (entirely funded by energy savings as opposed to subsidies) of at least €180bn, that is to say €120bn more than the current investment trend (BAU of €60bn or even less over 10 years). This untapped potential, which urgently needs to be more accurately assessed in the EU, is reason enough for action by public authorities:

- public accounting standards are a burden on projects and their “conventional” financing mechanisms;
- project finance mechanisms remain ill-suited to these medium-sized operations;
- stimulating demand (currently weak and politically undervalued) calls for a clearly articulated long-term real estate strategy and key projects to achieve it;
- current financing capacities and regulations would be insufficient for such a proactive policy.

c. Unrivalled socio-economic benefits

Energy renovations bring key socio-economic benefits:

- local job creation, in part through SMEs: with about 15 jobs/year per million euros invested, a €420bn programme of investment in public buildings would result in more than 600,000 additional jobs/year over 10 years;
- the development of an industry of excellence which would boost EU exports to globally expanding energy efficiency markets;
- improvement of the EU’s highly skewed energy trade balance;
- energy independence⁵: the EU28 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 would like to thank the SFTE consortium (Aquitaine, ARKEA, CDC, Centre, Crédit Agricole, EDF, ECF, FFB, FNH, GDF SUEZ, BPCE, Landes, Meridiam, Plan Bâtiment Durable, Rhône-Alpes, Schneider, The Shift Project, Vinci) and the many specialists who have already agreed to contribute to AFTER’s work, with around 200 experts, stakeholders and officials interviewed in France and Europe.

3 Ministry of Ecology, Sustainable Development and Energy.

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

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

- investment spurring the EU's competitiveness: fossil-fuel imports represent more than €1bn per day but energy savings would enable the EU to use these resources to generate more added value;
 - exemplary reduction of CO₂ emissions in the context of COP21, in accordance with European targets⁶.
- Investing €180bn in public buildings (+€120bn versus BAU) would reduce their energy consumption by 20%. Investing €420bn (+€360bn versus BAU) would reduce their CO₂ emissions by 40%.

2. AFTER's proposal of a quality investment programme for an EU economic recovery plan

a. A key European dimension

We have seen broad demand for innovative proposals through our European contacts: the EIB, the European Commission (DGs ENER, CLIMA, MARKT, ECFIN and others), KfW, NGOs and so on. European organisations are also showing a strong interest in the development of energy efficient buildings. The EU is reviewing a number of quality investments in infrastructure. At this time, the SFTE's proposal could be considered as a highly relevant energy-climate project for a European economic recovery plan. While it is proposed to kick off the SFTE project as a national experiment, its scope will be very much European.

b. High-quality financial engineering

Our proposals respond to the need for the long-term financing of the European economy⁷ focusing on the "real economy", without increasing the public debt. They will improve the traceability of that financing to facilitate safe and transparent monitoring of the scheme by public authorities. AFTER has produced another note describing the SFTE scheme and its broad partnership between public and private entities.

c. A strong commitment from European and national public authorities

The SFTE project requires a strong mobilisation of public authorities in the EU and Member States. Their commitment is essential to improve public project management capacity, pool operations, promote economies of scale, standardise projects, and ultimately to significantly increase 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."⁸ In addition, energy savings performance commitments will provide for reliable and demanding public policy assessments. The programme should be widely publicised to make it easier for local elected representatives to politically promote their energy efficiency projects.

3. 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 mobilisation of all stakeholders⁹:

a. European Union

- Public buildings selected as a quality investment target for the EU
- 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...

b. National public authorities

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

c. European private sector

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

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⁶ European Commission. [2020 climate and energy package and 2030 framework for climate and energy policies](#).

⁷ European Commission. [Communication on long term financing of the European economy](#), March 2014.

⁸ G20. [A set of Leading Practices on Promoting and Prioritising Quality Investment](#), September 2014.

⁹ Another note gives more details on the technical agenda. See "420 Bn€ quality investments for EU – technical"