



Speech by Commissioner Arias Cañete at the Lisbon Council "Towards an Effective Energy Union"

Brussels, 17 February 2015

Ladies and gentlemen,

It is a pleasure for me to be here and to present the vision of the Juncker Commission for energy efficiency.

As you will be aware, in the coming days the Commission will present its proposal for an Energy Union. This project will be crucial for achieving the sustainable, competitive and secure energy system Europe's citizens and businesses need. In order to succeed, the Energy Union will have to be a collective exercise, bringing together all strands of EU energy policy, and stakeholders at every level of society.

Our proposal next week will set out a vision, but a vision counts for nothing without real action and firm implementation.

That is why our proposal will be accompanied by a list of concrete measures that I, as Energy and Climate Change Commissioner, will be personally responsible for delivering.

Today I would like to focus particularly on the energy efficiency dimensions of the Energy Union, and why I think we should adopt the motto of 'efficiency first'.

But before I turn to energy efficiency - and particularly energy efficiency in industry - let me briefly cover some other prominent aspects of our proposal.

Firstly, I will start with the challenge of **Energy Security**.

Without swift and decisive action Member States will remain dependent on a single supplier that views the sale of gas not simply as a commercial matter, but as a political weapon.

Furthermore, the EU will become more dependent on imports; extra imports delivered via new pipelines like the Southern Corridor will be offset by declining domestic production.

I therefore see the need for concrete action, in a form that our citizens will immediately understand and appreciate. We need to consolidate our relationship with our trusted partners such as Norway reach out to new transit countries and suppliers like Turkey and Algeria, and support old friends, like Ukraine, and the Energy Community.

Moreover, we should build the necessary infrastructure to bring this gas to where it is most needed in the EU. This is why I will be proposing a new EU LNG strategy, and working to accelerate other infrastructure projects.

Secondly, we also need to push ahead with the development of the **Internal Energy Market**. Much remains to be done if we are to achieve a truly integrated market.

A citizen in one Member State must be able to buy his or her electricity freely and simply from a company in another

Locally produced renewable energy must be absorbed easily and efficiently in the grid.

Prices for citizens must be affordable and competitive.

And we must develop long-term investment signals that will encourage sustainable and competitive supplies.

Whilst we have achieved much, and we have strong foundations to build on, this vision of an Internal Energy Market does not exist today, and without change, it will not happen tomorrow.

Thirdly on **renewable energy**, President Juncker has set the goal of becoming – or remaining – world leader in this area.

To me this means becoming a global centre of excellence for developing and manufacturing the next generation of renewable energy technologies. For that we need to put in place the policies that will catalyse an extraordinary expansion of investment in new, highly competitive clean energy. This is what the 27% target by 2030 demands.

We have made great progress towards meeting our 20% target by 2020, but we have also learned a great deal. We must put this knowledge to use. We must create a single EU market for renewable energy that is fully integrated with, and competes freely in, the overall electricity market. A renewable energy market that rewards innovation and promotes efficiency.

This will make an important contribution to improving our energy security. It must be a driver of jobs and growth. And thereby it will help ensure affordable and competitive electricity prices for our citizens. In order to reach these objectives, the Commission will consult on and propose a new Renewable Energy Package.

Fourthly, a dimension that is integral to achieving all our Energy Union objectives: we need success in **research**. Without a leading edge in research and technology, we will not be the world leader in renewable energy. We will not deliver the energy efficient homes that can turn our citizens into active energy consumers. We will not be able to build truly smart cities nor to maintain a leading position on more traditional energy technologies and efficient vehicles. For all this a renewed emphasis on research is key.

And fifthly, the moderation of demand and energy efficiency are, to my mind, the areas that merit our greatest determination at EU, national, regional and individual level. It has been said many times but it is true: the energy we do not use is the cheapest, most sustainable and most secure energy there is.

The EU is already a world leader here; but I think we can do so much more.

It starts with taking "efficiency first" as our abiding motto.

Before we import more gas or generate more power, we should ask ourselves: "can we first take cost-effective measures to reduce our energy?"

Our framework of product standards, labelling and buildings codes has become the global gold standard in energy efficiency, and must remain so.

Here I see the need for a three-point initiative:

- **first: new and updated legislation:** a revision of the eco-design, labelling, buildings and energy efficiency directives; a new strategy on heating and cooling; and new measures on efficient vehicles, including promoting electro-mobility;
- **second: greater and more effective use of available funds,** including the Juncker Investment Initiative and regional and structural funds. In this respect the Commission will promote a Smart Cities and Communities initiative and use the Covenant of Majors to its full potential; and
- **third: a new approach on** improving the energy efficiency of buildings. Investments in insulation are amongst the most profitable for citizens and industry today. Most of the work here has to be done at national, regional and local level, but the Commission can play a strong role creating the ideal framework for progress, with a particular focus on the poorest citizens in rented accommodation and those in energy poverty.

Energy efficiency is one of the most cost effective means to reduce greenhouse gas emissions, improve energy security and economic competitiveness, and make energy more affordable for consumers.

And it has an important role to play in creating jobs and growth. We estimate that 800 000 thousand jobs can be created through investments in energy efficiency.

An example of this is in the construction sector. This is a sector where energy efficiency investments will be effective in contributing to economic growth and jobs, and where effects also have the benefit of being local.

In industry, energy efficiency policy aims to reduce the energy intensity of industrial activities. Or, in other words, it increases energy productivity by producing the same or more with less input.

Energy price disparities with global competitors - and their impact on the overall costs of energy - are a major cause for concern for the competitiveness of Europe's energy intensive industries. It is estimated that EU industrial electricity prices are 20 to 30 % higher than those in the USA. The price gap for gas is more significant - roughly twice as expensive for EU industry as for the USA.

EU industry has responded to these trends by increasing its energy efficiency: Between 2001 and 2011 EU companies improved their energy intensity by 19% compared to 9% in the US. This has allowed them to maintain the same level of energy costs per million euro of added value as their US competitors, despite the latter benefiting from much lower energy prices.

The EU has developed industrial leadership initiatives that help to promote the uptake of breakthrough technologies that promote energy efficiency in industry, such as Public-Private Partnership "Sustainable Process Industry through Resource and Energy Efficiency" (SPIRE). This Partnership is dedicated to

innovation in resource and energy efficiency, bringing together eight industry sectors operating in Europe who have a high dependence on resources in their production process. Its objective is to develop the enabling technologies and solutions along the value chain, required to reach long term sustainability for Europe in terms of global competitiveness, ecology and employment.

The EU has to ensure that the cost of energy in the long term allows EU industry to remain competitive, notably through increased energy efficiency but also the completion of the internal market for energy through the full implementation of the third package.

But energy efficiency in the industry context is not only a way of addressing rising energy prices but also a business opportunity. The International Energy Agency (IEA) estimates that investment in key energy efficiency markets worldwide totalled up to 300 billion dollar in 2011 with a high potential for further growth. Markets for energy management technologies, efficient products, or efficient construction materials will be growing in the future and it is important that the EU industry fully capitalises on that.

We know that European businesses, in particular the manufacturing industry, have already contributed much to making Europe one of the most energy efficient regions in the world. Here **Ecodesign and energy-labelling legislation** contribute to incentivising industry to innovate and to create value. The carbon price that comes from the Emissions Trading System is another strong incentive for industry to become more and more efficient.

However, to further improve the investment signals towards a low-carbon economy, the EU ETS needs to be reformed. The Commission has proposed to establish a Market Stability Reserve, which will ensure better coherence between the ETS and other EU policies on energy efficiency and renewable energy. I am confident that this proposal will be agreed by the European Parliament and the Council in the coming months. After that, the Commission will quickly propose a wider review of the Emissions Trading Directive, to set the rules until 2030, including rules to adequately protect the competitiveness of EU industry where needed.

I believe there is a positive message to convey about the EU's recent achievements in energy efficiency. Significant progress has been achieved in establishing the necessary policy and legislative framework.

A decoupling of economic growth and energy consumption is reflected in the improvements that can be observed at the level of different end-uses: new dwellings built today consume on average 40% less than dwellings built 20 years ago, while cars consume on average 2 litres less than 20 years ago. This is to a large extent the result of concrete policies like the introduction of energy efficiency requirements into building codes and the setting of fuel-efficiency standards for passenger cars – to name but a few.

At the same time there remains a considerable cost-effective energy savings potential. In order to produce the benefits that this potential represents, the European Union has developed a comprehensive set of measures to drive progress.

Energy efficiency will remain central to the Climate and Energy Framework after 2020. This is because the challenges of uncertain energy supplies, growing energy prices and achieving a low-carbon energy system cannot be meaningfully addressed without increasing the energy efficiency of our economy.

Energy efficiency and consumption are also driven by other factors, notably energy prices and economic activity. Slower growth than previously anticipated contributes to reaching the 2020 target (as the target is formulated in terms of absolute energy consumption). However, the impact of this factor should not be overstated: analysis shows that the impact of policies is twice the size of the impact of the economic slowdown.

We estimate that the European Union is currently on track to achieve 18-19% energy savings in 2020, leaving a gap of just 1 to 2 percentage points to the 2020 EU target.

In order to close the gap we need to make a determined effort to fully implement already agreed legislation. The Commission will continue to work with the Member States to ensure that the rules agreed by them at EU level are transposed, implemented and enforced on the ground. Like I said at the beginning of this speech: the key, as always, is proper implementation, and firm enforcement.

Turning now to 2030, the 2014 Energy Efficiency Communication identifies how far we should push energy efficiency to get the best returns. Best returns on investments, in terms of lower energy bills, best returns in increased security of supply, and best returns in more jobs and other ancillary, but really significant, benefits that energy efficiency brings, such as better homes providing more comfort to their inhabitants.

In the Communication on the 2030 Climate and Energy Framework, the Commission already indicated that the cost-effective delivery of the 40% greenhouse gas target would require increased energy savings in the order of 25%. Recent events in Ukraine have highlighted the strategic value of energy

efficiency that goes well beyond the contribution it makes to emission reductions.

Our analysis shows that gas imports would be reduced by 2.6% for every additional 1% in energy savings. This is a win-win solution which will free up money that can then be allocated to other important areas. For example, spending money on the refurbishment of buildings rather than on gas imports makes sense both economically and as a community measure, as it creates local jobs and allows for better living conditions.

With this in mind, the Commission proposed that the EU set the objective of saving 30% of energy by 2030. As you know, the European Council decided to opt for a target of 27% and asked the Commission to revisit this issue before 2020 having in mind the level of 30%.

Despite being less ambitious, reaching a target of 27% is not a business as usual approach. It already necessitates more efforts from policy-makers and market actors. To achieve this target, in fact, the energy intensity of the residential sector – for example – will have to be improving almost 5 times faster between 2020 and 2030 than it was the case between 2000 and 2010.

Achieving savings within this range will require the mobilisation of significant investments. The majority of the energy-saving potential is in the building sector and almost 90% of building floor-space in the EU is privately owned.

This points to the need for significant private financing. It is essential, therefore, that a market for energy efficiency improvements emerges and public funds act to leverage private capital.

In recent years, the EU has been developing pilot schemes of innovative financing instruments and has earmarked €38 billion for low carbon economy investments under the Structural and Investment Funds (ESIF) 2014-2020 – and this sum can be multiplied by attracting private capital.

The Commission will continue to work with the financial institutions and Member States to put in place the necessary financing framework.

As I mentioned earlier, the EU is a world leader in energy efficiency.

Going forwards, for the climate conference in Paris at the end of this year, the EU's main aim is to adopt a single global legally binding agreement preferably in the form of a new Protocol, applicable to all, with collective contributions aiming to ensure that the global temperature increase stays below 2°C relative to pre-industrial levels.

The EU has demonstrated its ability to meet ambitious objectives. Energy efficiency measures have played a key role in achieving these objectives.

The same will be true for the EU 2030 target, and energy efficiency will also be a key element globally. It is important to remember that some energy efficiency measures can deliver quick results. That is crucial because the 2015 agreement will only really come to play after 2020, whereas there is still a big mitigation gap to be filled between now and 2020, if we want to have any chance to reach the 2° C objective.

Hence energy efficiency goals and policies should not only play a key role in countries' emission targets for 2020 and beyond, but also in current policy making.

Finally, the immediate benefits in terms of savings and security of supply of energy efficiency measures cannot be overestimated and are valid for all countries, be it developed countries, emerging economies or less developed countries. All stand to gain.

And that is why the report that will be presented today is very timely and extremely useful, as it presents governments a very clear picture of the potential, the opportunities and the actions needed to enhance their energy efficiency. I invite governments to take due note of this report in their vision for their energy future and in developing determined action to reap the benefits of energy efficiency for all!

Thank you for your attention.

SPEECH/15/4439

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