

LIES, DAMN LIES & STATISTICS

MAKING OR BREAKING THE 2030 ENERGY EFFICIENCY TARGET

The Commission is studying a range of options for the revision of the 2030 energy efficiency target, from the current 27% target to the European Parliament's – and our own – preferred goal of 40%. The official proposal is expected after the summer. But it seems the level of ambition may already be decided by mid-July.

On the face of it, there shouldn't even be a debate. The Commission's own analysis shows that the higher the target, the better the results for jobs, energy security and economic turnover¹. The International Energy Agency champions energy efficiency as the 'first fuel' and the 'main arrow in the quiver' in the fight against climate change. No wonder that two years ago – when the Commission was seriously considering going for just 25% efficiency – President-elect Juncker weighed in with his *“for me a binding target of at least 30% is the minimum”* statement.

But beneath the surface a whole other debate is raging: what is the EU's cost-effective energy efficiency potential? How should that potential be assessed? It is a nerdy subject. But it can make or break the case for higher ambition.

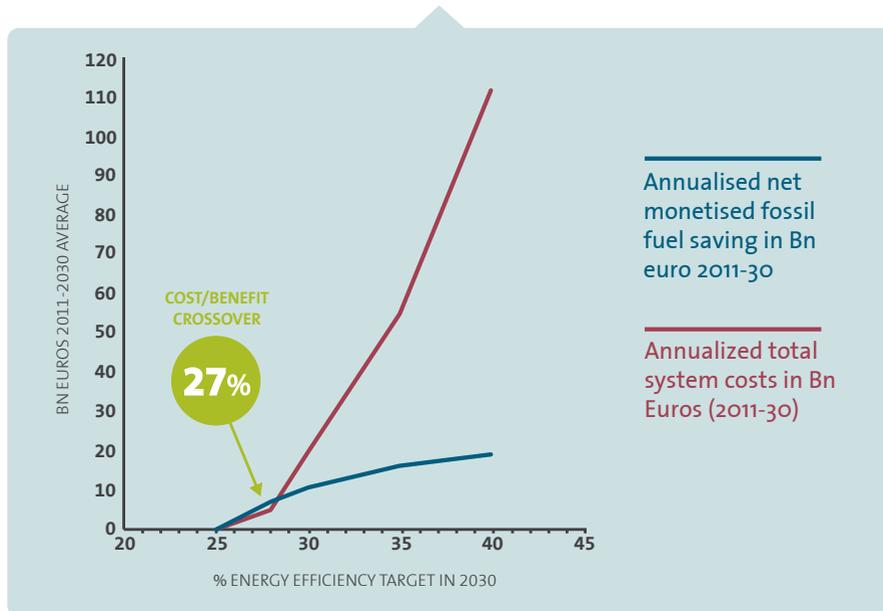


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TRICKS OF THE TRADE

Back in 2014, heavyweight Commission players – Barroso, Catherine Day – wanted 25%, at most 27%, efficiency. This would have meant capping the benefits. But they thought that a low efficiency target would make it easier to sell their proposal for a 2030 greenhouse gas target to the member states (which was perverse, given the importance of efficiency to cut emissions). They also knew they would be saving themselves a messy fight with the fossil fuel lobby. Having decided on a weak target, it seems they told officials to justify it. The officials came up with this graph²:

Fudged numbers: the EU's cost-effective potential with a high discount rate and just one benefit

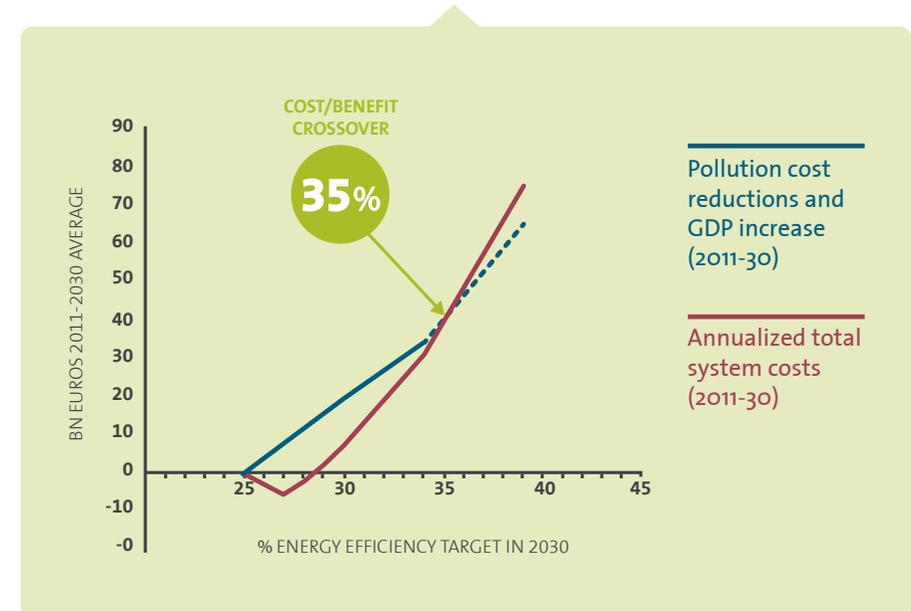


It 'shows' the EU's cost effective potential – the cost / savings crossover point – is about 27%. It achieves this by comparing all costs with just one benefit: fossil fuel import savings. It is even more of a swindle than it looks, because energy efficiency costs were calculated with an extremely high interest rate (or 'discount rate', in modelling lingo). As a matter of fact, the Commission used a higher rate than oil companies were using at the time for their operations in war-torn Iraq³.

Fortunately, enough people in the Commission saw that the wool was being pulled over their eyes, and backed a 30% target. But the damage was done, and sceptical member states used the cost-effectiveness 'excuse' to force through the '27% target with a view to going to 30%' compromise in heads of state discussions in October 2014.

Back to the present and the review of the 27% target. This time it seems the Commission's energy department is determined to take benefits properly into account. It has also managed, with the backing of Commissioner Arias Cañete, to lower the discount rate⁴. Using the new methodology, the cost / benefit crossover point is around 35%⁵:

Cost-effective potential increases to 35% with a more realistic discount rate and more benefits



To be clear, this is a conservative estimate based on financial investments and savings. It doesn't take into account the huge benefits of higher ambition on improved living standards, new jobs, energy dependence and emissions cuts. Going for the top end of the range – for 40% efficiency – could cut greenhouse gas emissions in half by 2030 and help keep us in line with the Paris Agreement commitments⁶.

DON'T BE CHEAP

The importance of giving equal weight to the costs and benefits of a higher efficiency target seems obvious (and for emissions cuts and renewables too, of course). But critical Commission officials – known as submarines, apparently, because they try to torpedo higher ambition – claim⁷ that the ‘*key issue for EU impact assessments is the cost difference between business as usual and new policy scenarios*’. In other words, they want to go for the least cost scenario, which is inevitably the least ambitious. It’s daft! Who buys – on a matter of principle – the cheapest possible bicycle, car or apartment? Policymaking has to strike a balance between costs and benefits, between pros and cons.



There is so much at stake. As MEP Theresa Griffin forcibly puts it “*for every 1% improvement in energy efficiency, 3 million more homes can be properly renovated, 7 million people lifted out of energy poverty*”. And climate change: The Economist reports that ‘*the current year will almost certainly be the warmest on record, and probably by the largest margin to date*’. More ambition on efficiency is the best solution. To its credit, the Commission is already committed to increasing the 2030 target. It cannot allow outdated and biased methods to impose an artificial cap on the level of ambition.

END NOTES

1. See summary of Commission and IEA data: <https://goo.gl/B0gkAt>
2. See p12: <https://goo.gl/Nuapou>
3. More Details: <http://goo.gl/AsvCzS>
4. The discount rate for estimating energy efficiency investment costs was previously at 17.5%. It is now – according to our information – 10%. This is still twice as high as the average rate used by national governments.
5. <http://goo.gl/K7W7kh>
6. <http://goo.gl/w4T5t9>
7. In discussions with the author

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