

INFORSE Proposal for Global Cooperation on Energy Efficiency

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Background

Energy efficiency is recognised as key for achieving sustainable development in both industrialised and developing countries. Increased investments in energy efficiency and improved energy efficiency of products will yield developmental and environmental benefits worldwide.

The EU Prime ministers and the EU Commission have proposed new international cooperation on energy efficiency to be part of the new EU energy policy initiatives. Globally energy is high on the international agenda: at G8 meetings; at the UN meetings such as CSD that has energy as a theme 2006-2007, at UNFCCC etc. The political climate has never been better for introducing international cooperation on energy efficiency.

Cooperation on Energy Efficiency Standards

A key place to start is on cooperation on the standardisation of energy efficiency standards. As many products are manufactured far from where they are used producers have very little incentive to make energy efficient products. If producers were required to meet standards and guidelines for domestic markets similar to their export markets, there would be a clear market signal to become more energy efficient. Larger equipment exporting countries such as China have a self-interest in raising energy efficiency standards of domestically-used products to reduce energy demand. It is even part of Chinese policies to do so.-

Not all countries will adopt the same energy efficiency standards. Instead countries can adopt a series of energy efficiency levels, similar to the A,B,C,D etc. labelling used in the EU today. One country can then decide to allow equipment or cars with C-level efficiency and better on its market while another country can decide to allow only A-level efficiency. Additionally countries can demand labelling of products, allowing consumers to see which efficiency level a particular product could meet and/or how much energy it uses. The system could also be used to graduate taxation, having higher taxes on the most energy consuming cars, equipment etc.

Once the system is in place for a particular type of products, it should be expanded gradually with new categories of more efficient products. In this way, the system will also be able to include approaches for progressive increasing standards, such as the Japanese “top-runner approach”.

While the principles for global energy efficiency standards are simple, the coverage of all energy consuming products in all countries will be a huge task. Fortunately, less than that is also valuable: the initial focus should be on the products traded the most internationally. It can then gradually be expanded to other products that are traded internationally. The cooperation do not have to cover all countries: if a number of key equipment producing and consuming countries are actively involved initially, it will in itself make a huge difference for energy efficiency, and for the global energy consumption.

The first step will be to explore the interest among key countries that are large producers/exporters and consumers/importers of energy consuming goods. Then this group of countries should come together to discuss a practical proposal.

International Financing

Another obvious target for international cooperation is international financing. While the most cost-effective energy investments are in energy efficiency, multilateral development banks (MDBs) continue to use most of their energy funding for supply options, and mostly unsustainable solutions for increased use of fossil fuels and large hydropower. Some MDBs have tried to focus on energy efficiency, such as the European Bank for Reconstruction and Development (EBRD) that has a special department for energy efficiency. Unfortunately they have only reached out to a tiny fraction of the energy efficiency potentials in the countries they work with. To be more successful, they have to follow new ways. Loans of 10 millions Euro or more are of little use for most energy efficiency projects. Loan schemes where MDB-loans are distributed via commercial banks has interest rates far above the interests paid by large energy supply projects for their MDB loans, creating a counter-productive bias in favour of large project and against the small, more cost-effective energy efficiency projects. The countries that govern the MDBs have to tell these banks to change course.

Luckily there are other ways than the traditional investment-banking approach followed by MDBs. In developing countries, micro-financing organisations such as Grameen Shakti in Bangladesh have shown how local energy solutions can be successful when introduced with affordable financing. In many well-developed economies, energy efficiency in housing is often financed with mortgages for houses, where low interest rates are achieved by combining no or low profits with a large spread of the risk, and high credit-ratings for the mortgage-institutions. The MDBs could learn from such examples and establish funds that provide low-interest loans for energy efficiency, utilising the relatively low risk of many energy-efficiency investments.

As a start the countries should ask particular MDB's such as European Investment Bank (EIB) and EBRD to get involved in energy efficiency funds with low interest rates, and in micro-credit for energy efficiency and renewable energy. With specialised institutions it will be possible to evaluate the risk of various energy efficiency investments for various types of users, asking a reasonable risk-premium for each loan without the detailed project evaluation that MDBs use today for their large loans. The MDBs should provide capital for establishing the funds that can then run as national or regional entities.

The countries should demand that MDBs use a certain share of their energy lending for small-scale energy efficiency and renewable energy. The energy lending should gradually be changed from fossil fuel and large hydropower to energy efficiency and renewable energy.

Integrate Energy Efficiency in International Cooperation

The third obvious target is to integrate energy efficiency in other international cooperation. Energy efficiency must be integrated in development assistance, to give the countries that receive the support the least costs for future energy use. A requirement should be that all cost-effective energy efficiency measures should be integrated in project designs, with cost-effectiveness based on price forecasts based on today's energy costs.

When energy strategies are made as part of international cooperation, energy efficiency should have the highest priority. Energy efficiency strategies must be part of the strategies, targeting all energy efficiency options that are cost-effective with energy price forecasts based on today's energy prices. When energy investments are discussed, energy efficiency alternatives must be included as real alternatives, and when relevant combined with local supply options.

These concepts should be agreed among the countries and then enforced in their international cooperation.

New International Cooperation on Energy Efficiency

The national and regional activities for energy efficiency are not limited to the issues discussed above. Countries have successful experience with energy efficiency standards in building codes, in promotion of energy efficiency with campaigns, taxes, subsidies, etc. International cooperation could expand the use of the successful experiences to more countries, and could strengthen the individual initiatives.

A good example of that is the EU building directive and standards for low-energy houses and passive houses. If these concepts and standards were used by other countries in the temperate climate zone, it could yield large reductions in energy use. Similar concepts and standards could reduce cooling demands in warmer climate zones.

Technology transfer should be an important part of the new cooperation. It should make technologies to save energy for heating, cooling, electricity etc. available for developing countries, so they will use them in their further development. New global cooperation will have an important role in this; but the energy efficiency technology transfer should also be integrated in the existing development assistance.

The new cooperation should promote practices for rational user and stakeholder input into the design of energy efficiency measures and the formulation of energy policies and tariffs that trigger the maximal energy efficiency. There are already existing good practices in this field and legislated institutions, such as Citizen's Utilities Boards (CUBs) in the USA and other user-involvements in local and national energy planning, user and housing cooperatives involved in increasing their own energy efficiency, etc.

The new international cooperation should also include exchange of experience among countries, increased information on successes, as well as increased focus on energy efficiency policies.

A Call from International Network for Sustainable Energy (INFORSE)

INFORSE is urging progressive countries to start new international cooperation on energy efficiency, including the proposals presented above. From INFORSE and the INFORSE organisations we would like to cooperate on the development of the proposals and turn them into practical workable cooperation that can increase energy efficiency globally.

Contact INFORSE via www.inforse.org or to email ove@inforse.org.