



3C (Combat Climate Change) – A Business Leaders' Initiative

Efficiency & Climate: Recommendations for Policy Makers

3C consists of leaders from more than 50 companies from around the world, committed to the integration of climate issues into global markets and the establishment of a new global climate change agreement coming into force in 2013. To support this process, 3C develops recommendations for policy makers on the climate issues most relevant to business. The following recommendations concern the need to improve the energy efficiency of the global economy if climate goals are to be met.

The role of energy efficiency is critical to addressing rising energy demand in a manner consistent with a global focus on reducing greenhouse gas emissions. The benefits of energy efficiency are numerous: avoided emissions, avoided costs of new generation sources, risk management against fuel price volatility, and lower energy costs to name a few. Yet there remain almost as many barriers to widespread deployment of energy efficiency as there are benefits. These barriers exist due to a complex web of financial, regulatory, and market-based deficiencies and roadblocks.

The purpose of this memo is to shed light on important challenges from a business perspective, and to identify recommendations for addressing them via policy and other initiatives. In general, the solutions describe a framework that:

- Stimulates consumer demand through information, education, and incentives;
- Uses financial tools to decrease upfront costs and payback periods;
- Stimulates supply by businesses through regulations, codes of practice, and purchasing programmes that help create reliable markets for energy efficiency

Challenge 1: Facilitating Energy-Efficient Consumer Choices

The purchasing barriers to energy efficient products are extensive. Higher upfront costs and long payback periods create financial barriers. Insufficient product labeling prevents educated purchases. Even more basic is the lack of consumer and corporate knowledge about efficiency options and their potential impact on energy savings or emissions reductions.

Recommendation

Regulatory and voluntary frameworks should strive to drive consumer awareness, interest, and demand in energy efficient products. Tools to achieve this include:

- Standardized product labeling, focused on cost savings of reduced energy use
- Identifiable and credible energy 'efficiency brands' (e.g. Energy Star in US)
- Consumer awareness campaigns focused on success stories
- Simple, targeted financial incentives available through retailers and utilities.



Challenge 2: Financing lifecycle costs and savings

It is common practice for purchasing decisions to be made based on upfront costs or using traditional payback calculations. Even when considering full lifecycle costs of ownership, the higher upfront price of new, highly efficient technologies creates a perverse purchasing incentive towards less expensive, less efficient product options. Further, where capital constraints exist (especially for smaller businesses), pursuit of near-term revenue opportunities is likely to be prioritized over valuable long-term investments in efficiency.

In addition, it is common practice for developing countries to serve as the market for older technologies. This practice perpetuates the life of less efficient, higher energy consuming technologies and ultimately puts developing nations at a disadvantage in terms of their ability to manage energy costs and GHG emissions.

Recommendation:

Governments and multilateral institutions should seek to maximize the financial incentives to invest in energy efficient product/projects, so that these investments can compete with faster payback initiatives and revenue opportunities. Tools include:

- Tax incentives and depreciation rules
- Green funds and government loans
- National or International “clean energy” banks
- Incentives and funding for ‘leap frog’ technologies in the developing world
- Market-based instruments that increase and accelerate efficiency improvements by giving additional value to energy savings

Challenge 3: Building markets for energy efficiency

Energy efficiency has the potential for sweeping impact on energy costs when deployed in large quantities. This potential, however, will only be met if governments, businesses and financial institutions recognize energy efficiency as a strategic initiative.

Cross-industry collaborations, voluntary programmes, and education in risk management can play a role. Yet market demand may not be enough to maximize efficiency improvements. Market creation through policy and regulation is one of the most effective ways to provide clear, long-term demand for energy efficiency products.

Recommendation:

Public policy and best practice initiatives should strive to expand and establish long-term markets for energy efficiency improvements. Important tools include:

- Standards development through national targets and codes, benchmarking, and procurement rules. Where possible a global agreement should coordinate these
- Align incentives to prioritise energy efficiency for business, both through external and internal instruments
- Cross-sectoral collaboration for education on energy risks and future demand