Eurostat clarifies how to record energy performance contracts in national accounts – Questions and Answers

What is an energy performance contract (EPC) and why is it important?

An energy performance contract (EPC) is a contractual agreement between a private EPC contractor and government or other (private) entities. EPCs are part of the energy transition promoted by the EU Commission with a view to achieve better efficiency in energy use, resulting in possible substantial energy savings in a context of global external dependence of the EU for its energy supply. Governments, as owners of public buildings and other facilities, may be involved in EPCs and contribute to energy savings. Moreover EPCs can also contribute to investment which is a key factor fostering economic growth and job creation.

What is the European System of Accounts (ESA 2010)?

The European System of Accounts (ESA 2010) is a European accounting framework that allows a systematic and detailed description of the economy. The structure of ESA 2010 is consistent with the worldwide guidelines on national accounting set out in the System of National Accounts(2008 SNA). ESA2010 is a legal act (a Regulation [1]) which has been adopted by all Member States. The concepts and definitions of the fiscal indicators (deficit and debt) used in the Excessive Deficit Procedure (EDP) and for the purposes of the Stability and Growth Pact (SGP) are based on the European System of Accounts (ESA 2010).

How is investment recorded in the European System of Accounts (ESA 2010)?

In the European system of national accounts (ESA 2010) investment is recorded as gross fixed capital formation (GFCF), which constitutes expenditure and has an impact on the deficit or surplus of a Member States' budget in case it is recorded on government balance sheet.

It should be noted that, in all other accounting systems, investment is also accounted for as expenditure.

Why are EPCs important in the context of the Excessive Deficit Procedure?

The provision of infrastructure under EPC contracts could create expenditure for government at inception as well as liabilities or debt for a government. However, the expenditure and the related debt can be recorded either on or off government balance sheet, that is, either with or without a direct impact on government deficit and debt.

In case the asset installed or renewed is recorded on government balance sheet, the entire expenditure is recorded for government at inception. This has a negative impact on government deficit or surplus and the government debt will be increased by the same amount.

In case the asset is recorded off government balance sheet, the impact on government deficit will be limited to the regular payments (the EPC fee, linked to the energy savings) undertaken by government to the EPC provider, which are spread over the duration of the contract. Moreover, no debt impact will be recorded at inception.

The possibility of off balance sheet recording can make the use of EPCs more attractive, allowing governments to invest in energy savings while complying with the debt and deficit thresholds established in the Maastricht Treaty.

Under what conditions could an EPC be recorded off government balance sheet?

For an EPC to be recorded off government balance sheet, the EPC contractor must be considered as the economic owner of the assets installed, which means that it will have to be the entity incurring most of the risks and benefitting from most of the rewards related to the EPC contract.

The analysis has also to focus on, amongst other, issues such as the duration of the contract, the existence of factoring operation in the context of the EPC, whether government provides financing or other guarantees to the EPC provider and, more in general, on specific clauses that might distort the distribution of the risks and rewards in an EPC. In addition, it needs to be checked that the EPC contractor is, for statistical purposes, classified outside the general government sector. Eurostat and the EIB will issue in the next months a Guide on the statistical treatment of EPCs, to explain this in considerable detail.

Who decides on the classification of an asset built under the EPC contract?

The National Statistical Institute (NSI) of each Member State analyses EPC contracts and decides on their sector classification following the statistical rules provided by this Eurostat guidance note, which is based on general ESA10 rules.

What is Eurostat's role?

In case of doubt, NSIs may contact Eurostat for an "ex-ante advice", in cases when an operation in question has not yet taken place and for "ex-post advice" – in cases when there are doubts on the statistical treatment of the already recorded transactions. Eurostat provides an advice in the form of a letter to the Member State. The advice is then published it its entirety or in summarised form on Eurostat's website. Eurostat will obviously continue to provide bilateral advice in case of EPCs.

What is the main benefit of the Eurostat guidance note on EPCs for governments facing fiscal constraints but which still need to carry out energy savings in a way compatible with fiscal constraints?

Certain governments are withholding very much needed energy saving measures in the context of EPCs, due to uncertainties as to whether their EPCs will be on or off government balance sheet and whether they will add or not to their Maastricht deficit and debt figures. This guidance note should allow public authorities to take an informed view ex-ante (i.e. early before the signature of the contract) on whether the EPC will be recorded on or off balance sheet of government. An improved understanding of statistical treatment issues should help taking an informed decision on whether entering into an EPC or not.

Following the publication of this Guidance note and the potential positive implications for EPCs, is it expected that the number of EPC with government will increase?

Although it is difficult to foresee what will be the impact of this Guidance note, some governments which were not signing EPCs due to their possible negative impact on public finance, might be expected now to do so or to make an increased use of such contracts.

When will this Guidance note come into effect?

The Guidance note is immediately applicable.

For more information:

IP/17/3268

Juncker Plan in Sweden: EIB provides EUR 30 million for iZettle's research and development

iZettle, a Swedish financial technology company, will receive **EUR 30 million** in debt funding from the European Investment Bank in the coming three years. The funds are earmarked **for research and development of financial and commercial tools that address the needs of smaller companies**.The transaction with iZettle was made possible by the European Fund for Strategic Investments (EFSI). EFSI is the central pillar of the Investment Plan for Europe, in which the EIB Group and the European Commission as strategic partners aim to boost the competitiveness of the European economy.

iZettle provides services through state-of-the-art technology which allows small companies to take payments, to register sales and to get funding.The EIB financing will support iZettle's research and development programme in four key business areas: **development of next generation payments infrastructure, insights and actions through machine learning and artificial intelligence, digitalisation of commercial processes,** and scaling of legislative and compliance systems.

EIB Vice-President Alexander Stubb said: “This loan is something that the EIB is proud of: it bears testimony to the EIB’s ongoing effort to improve access to funding for European midcap companies. iZettle is a young and innovative company which helps digitalise our economy and improves the business and cost structure of millions of small shops.”

“We’re proud to receive this stamp of approval from the EIB. It’s the type of offer you can’t refuse and it will allow us to further accelerate our growth and continue to level the playing field for small businesses, giving them access to tools to take on the big corporations” said **Jacob de Geer, CEO and co-founder of iZettle**.

European Commission Vice-President Jyrki Katainen, responsible for Jobs, Growth, Investment and Competitiveness, commented: “With the backing of the European Fund for Strategic Investments, the EIB continues to support truly innovative companies and project ideas, such as this one in Sweden with iZettle. I wish the company every success in their research and development programme. I hope other small businesses are inspired to also apply to the EIB’s partners for financing to innovate, expand their activities and create jobs.”

State aid: Commission approves alternative to divestment commitment for Royal Bank of Scotland

Today’s decision follows the agreement in principle reached on 26 July 2017 between Commissioner Vestager and the UK Government.

In April 2017, the Commission opened an in-depth investigation to assess whether the alternative package proposed by the UK authorities could be considered an appropriate replacement for the original commitment to divest part of its UK retail and SME banking operations known as Williams & Glyn (also known as “Rainbow”). This commitment to divest Williams & Glyn was made by the UK authorities as part of RBS’s restructuring plan submitted in 2009 and amended in 2014, to remedy competition concerns in the concentrated UK SME banking sector, where RBS is the leading bank.

The Commission can only accept modifications to existing commitments by Member States and aided banks that were given to obtain approval for restructuring aid (such as the one leading to the existing RBS restructuring decision), if the new commitments can be considered equivalent to those originally provided.

In this context, the opening of the in-depth investigation also gave interested parties the possibility to submit to the Commission their views on the new commitments and the Commission received comments from many parties. The UK authorities proposed amendments to the package to take into account some of those comments and ensure equivalence of the alternative package with the divestment it would replace. In particular, the package targets a transfer of a 3% market share in the UK SME banking market from RBS to challenger banks.

The Commission's investigation concluded that the improved package is sufficient to replace the divestment commitment and will increase competition in the UK SME banking market:

- The **Capability and Innovation Fund** will be distributed to eligible challengers to develop their capability to compete with RBS in the provision of banking services to SMEs and/or develop and improve their financial products and services available to SMEs.
- The **Incentivised Switching Scheme** will provide funding to eligible challengers to enable them to offer incentives to encourage RBS's SME banking customers to switch their business current accounts, deposit accounts and loans.

On this basis, the Commission approved the UK's improved alternative package under EU State aid rules.

Background

RBS is one of Europe's largest financial services groups and had a balance sheet of £799 billion at the end of 2016. During the financial crisis, in late 2008, RBS was on the verge of collapse and has benefitted from the following state aid measures:

- a recapitalisation of £45.5bn and an (eventually unused) five year contingent recapitalisation of £8bn
- an impaired asset measure covering excess loss (which was terminated with RBS not having received any payments from the State, but instead paid a cumulative fee of £2.5bn for the participation) and
- guarantees and other liquidity measures (now fully repaid).

These aid measures resulted in the UK Government holding the majority of RBS's shares and were accompanied by the restructuring of RBS approved by the Commission in 2009 and amended in 2014.

As part of this restructuring, the UK committed RBS would undertake a significant balance sheet and risk reduction. RBS has already delivered on those commitments to ensure the bank's long-term viability, in line with the Commission decision. It also delivered on all its other divestment commitments (sale of RBS insurance, transaction business, commodity trading, US banking subsidiary), which were made to ensure adequate own contribution by the bank to the financing of the restructuring of the core UK banking operations and to limit the distortion of competition. The divestment of Williams & Glyn, to be completed by end-2017 is the last outstanding commitment, with the objective to mitigate the distortion of competition in the UK SME banking market. This commitment has now been replaced with the new commitments from the UK relating to the alternative package.

The non-confidential version of this decision will be made available under the case number SA.47702 in the State Aid Register on the competition website once any confidentiality issues have been resolved. New publications of state aid decisions on the internet and in the Official Journal are listed in the State Aid Weekly e-News.

Daily News 18 / 09 / 2017

State of the Union 2017: Commission presents strategy for a smart, innovative and sustainable industry

The Commission today presented a renewed EU Industrial Policy Strategy for a world leading industry in innovation, digitisation and decarbonisation. Industry is at the heart of the Juncker Commission's political priorities since the beginning of the mandate. Now the Commission brings together all horizontal and sector-specific initiatives to support industry into a comprehensive strategy. The strategy announces new initiatives in the areas of circular economy, mobility, intellectual property, public procurement, skills and sustainable finance, in addition to the proposals on trade, investment screening, cybersecurity and data announced by President **Juncker** in his State of the Union address on 13 September. It also clarifies the tasks ahead for all actors involved and sets out the fora – an annual Industry Day, the first edition of which took place in February 2017, and a High Level Industrial Roundtable – that will allow in particular industry and civil society to steer industrial policy actions in the future. For more information on today's Industrial Policy Strategy see related press release, factsheets on the Strategy and Key Commission initiatives and stockshots on European industry. The press conference with Vice-President **Katainen** and Commissioner **Bieńkowska** held today in Brussels can be watched on EbS. *(For more information: Lucia Caudet – Tel.: + 32 229 56182; Mirna Talko – Tel.: +32 229 87278; Maud Noyon – Tel.: +32 229 80379)*

Juncker Plan supports agriculture project in Bulgaria as EIB opens office in Sofia

The European Investment Bank (EIB) has signed a loan agreement in Bulgaria with Oliva AD, the leading sunflower and oil producer and grain trader in the country. The company will use the loan to finance the construction of a new sunflower oilseed production plant and storage and logistics facilities in the Beloslav municipality near Varna. This agreement is supported by the European Fund for Strategic Investments (EFSI), the core part of the Investment Plan for Europe, or so-called Juncker Plan. The EIB also opened a new office in Sofia today, which will help provide local, targeted assistance for project promoters and small businesses looking for investment. Commissioner for Agriculture, Phil **Hogan**, said: "*I welcome the EIB's commitment to targeting EU investment to the agri-food sector. This is a growth sector with massive potential to contribute more to job creation and growth with smart, tailored investment. I encourage any and all agri-food operators with a suitable investment plan to make contact with the EIB to investigate what options may be open to them*." *(For more information see the new and updated website, which has the latest data about EFSI financing including results for all countries, material such as stories about small businesses that have benefitted from the EFSI, and all the latest news. You can also contact Annika Breidthardt – Tel.: +32 229 56153; Enda McNamara – Tel.: +32 229 64976)*

European Year for Cultural Heritage 2018: Commission launches a call for proposals

Today, under its Creative Europe programme for the cultural and creative sectors, the Commission launches a call for proposals to fund transnational cooperation projects linked to the European Year of Cultural Heritage 2018. The call is an invitation to cultural actors such as concert halls, opera houses and theatre groups across the EU to get involved in the Year's activities to reinforce a sense of belonging to a common European space. Commissioner for Education, Culture, Youth and Sport, Tibor **Navracsics**, said: *"Today, we are taking another step towards making the European Year of Cultural Heritage 2018 a reality. Our rich cultural heritage is a great asset. It is about much more than the past – it has a key role in building our future. We are looking for projects that will highlight the European dimension of that rich cultural heritage in all its forms. As President Juncker said in his State of the Union Address, we must celebrate cultural diversity in 2018."* In total, €5 million are expected to be available for the heritage projects. The Commission will favour projects that focus on awareness raising and communication activities, and which will make a long-term impact. The deadline for submission is 22 November 2017. Projects should start between January and September 2018, and can run for a maximum duration of 24 months. More information on the Year is available here. *(For more information: Nathalie Vandystadt – Tel. +32 229 67083; Joseph Waldstein – Tel.: +32 229 56184; Julia Bräuer – Tel.: +32 229 80707)*

ANNOUNCEMENTS

EU at UN General Assembly: Kick-Off of the activities:

The EU's activities around the 72nd UN General Assembly ministerial week kicked off on Sunday in New York, with a ministerial level meeting on Climate change hosted by Commissioner **Arias Cañete**. Vice-President **Ansip** participated in the annual meeting of the Broadband Commission for Sustainable Development to promote broadband access. Today, Commissioner **Malmström** will launch the Alliance for Torture-Free Trade, which aims at ending trade in goods used for capital punishment and torture. The initiative is a joint effort with Argentina and Mongolia, and so far, more than 50 countries have signed up to it. First Vice-President **Timmermans** will be speaking at several events, including on WEF Sustainable Development Impact summit, launch of Equal Pay International Coalition as well as at Columbia University. High Representative/Vice-President **Mogherini** will participate at a ministerial discussion on Syria and attend alongside Commissioner Hahn the Ad-hoc Liaison Committee for Palestine. She will also be at a high-level G-5 Sahel meeting and host informal gathering of EU Foreign Ministers, which Commissioner Hahn will also attend. Commissioner **Avramopoulos** will deliver a keynote speech on the role and responsibilities of private actors in strengthening the stability and international security of cyberspace. Together with Commissioner **Hahn**, he will have a meeting with UN High Commissioner for Refugees Grandi. Commissioner **Mimica** will attend a high-level event on Scaling up Nutrition and address the UN Private Sector Forum 2017. Commissioner **Stylianides** will be at a high-level event on Hurricane Irma, and address the UNFPA event on Rebuilding Shattered Lives and Communities: Chibok and Yazidi Girls and Women. Audio-visual coverage of the events will be available on EbS. Follow EU@UN for updates throughout the day. *(For more information: Maja Kocijancic – Tel.: +32 229 86570; Esther Osorio – Tel.: +32 229 62076)*

Commissioner Navracsics to address 'Europe for Festivals, Festivals for Europe' Award Ceremony

Commissioner for Education, Culture, Youth and Sport, Tibor **Navracsics,** will this evening speak at the award ceremony for the European label for festivals, 'Europe for Festivals, Festivals for Europe' at the BOZAR in Brussels. Commissioner **Navracsics** will use the occasion to stress that, by highlighting the role of culture in creating a European identity and in building the future together, festivals can make a valuable contribution to the upcoming European Year of Cultural Heritage in 2018. The ceremony will showcase the six most notable European Arts Festivals chosen by an international jury from a pool of 715 festivals from 39 countries (participating in the Creative Europe programme). Operated by the European Festivals Association, 'Europe for Festivals, Festivals for Europe' is a pilot project supported by the European Commission to reward European cultural festivals for their contribution to European cultural life and their role in tackling societal challenges. *(For more information: Nathalie Vandystadt – Tel.: +32 229 67083; Joseph Waldstein – Tel.: +32 229 56184; Julia-Henriette Bräuer – Tel.: +32 229 80707)*

Commissioner Andriukaitis in Kaunas for Citizens' Dialogue and launch of the second European Joint Action on chronic diseases

European Commissioner for Health and Food Safety, Vytenis **Andriukaitis**, is on official visit to Lithuania on 18-19 September. On 18 September Commissioner **Andriukaitis** delivers his speech at the launching of the second European Joint Action on preventing and addressing chronic diseases. On Tuesday 19 September, Commissioner **Andriukaitis** will hold a Citizens' Dialogue in Kaunas at 11:00 CET, which can be followed live. In addition to health and food safety topics, Commissioner invites citizens to discuss the present and the future of the EU. Citizens and media can attend the debate in person. (*For more information: Anca Paduraru – Tel.: +32 229 91269; Aikaterini Apostola – Tel.: +32 229 87624)*

State of the Union 2017 – Industrial Policy Strategy: Investing in a smart, innovative and sustainable industry

On 13 September, in his annual State of the Union address, President Jean-Claude **Juncker** stated: *"I want to make our industry stronger and more competitive. The new Industrial Policy Strategy we are presenting today will help our industries stay or become the world leader in innovation, digitisation and decarbonisation."*

The renewed EU Industrial Policy Strategy brings together all existing and new horizontal and sector-specific initiatives into a comprehensive industrial strategy. It also clarifies the tasks ahead for all actors involved and sets out the fora – an annual **Industry Day**, the first edition of which took place in February 2017, and **a High Level Industrial Roundtable** – that will allow in particular industry and civil society to steer industrial policy actions in the future.

Vice-President for Jobs, Growth, Investment and Competitiveness Jyrki **Katainen** said: *"By embracing technological change, converting research investments into innovative business ideas, and continuing to pioneer the low-carbon and circular economy we will pave the way for a smart, innovative and sustainable industry in Europe."*

Elżbieta **Bieńkowska**, Commissioner for Internal Market, Industry, Entrepreneurship and SMEs, added: *"Many European industries are at a turning point. In our day and age, industrial policy is about empowering our industries to continue delivering sustainable growth and jobs for our regions and citizens."*

The main new elements of the EU Industrial Policy Strategy include:

- A comprehensive package to reinforce our industry's **cybersecurity.** It includes the creation of a European Cybersecurity Research and Competence Centre to support the development of technology and industrial capabilities in cybersecurity, as well as an EU-wide

certification scheme for products and services, recognised in all Member States (adopted on 13 September 2017).
- A proposal for a Regulation on the **free flow of non-personal data** that will enable data to circulate freely across borders, helping to modernise industry and create a truly common European data space (adopted on 13 September 2017).
- A new series of actions on Circular Economy, including a strategy on **plastics** and measures to improve the production of **renewable biological resources** and their conversion into bio-based products and bio-energy (autumn 2017).
- A set of initiatives to modernise the Intellectual Property Framework, including a report on the functioning of the Directive on the enforcement of **intellectual property rights** and a Communication on a balanced, clear and predictable European licensing framework for **Standard Essential Patents** (autumn 2017).
- An initiative to improve the functioning of **public procurement** in the EU, including a voluntary mechanism to provide clarity and guidance to authorities planning large infrastructure projects (autumn 2017).
- Extension of the **Skills Agenda** to new key industry sectors, such as construction, steel, paper, green technologies and renewable energies, manufacturing and maritime shipping (autumn 2017).
- A strategy on **sustainable finance** to better orient private capital flows to more sustainable investments (early 2018).
- Initiatives for a **balanced and progressive trade policy** and a European framework for the **screening of foreign direct investments** that may pose a threat to security or public order (adopted on 13 September 2017).
- A revised list of **critical raw materials** where the Commission will continue to help ensure the secure, sustainable and affordable supply for the EU manufacturing industry (adopted on 13 September 2017).
- New proposals for **clean, competitive and connected mobility**, including tightened CO2 emissions standards for cars and vans, an Alternative Fuels Infrastructure Action Plan to support the deployment of charging infrastructure, and actions to foster autonomous driving (autumn 2017).

Putting this holistic strategy into practice is a shared responsibility. Its success depends on the efforts and cooperation of the EU institutions, Member States, regions and most importantly on the active role of industry itself.

Europe’s industry is strong and has retained a leading position in many sectors in global markets. Industry accounts for two thirds of the EU’s exports and provides jobs for 32 million people, with 1.5 million of these jobs created since 2013. But to maintain and reinforce its competitive advantage, an important modernisation effort is required. That is why industry is at the heart of the Juncker Commission’s political priorities. All Commission policies are geared toempower industry to create jobs and boost Europe’s competitiveness, foster investment and innovation in clean and digital technologies and defend Europe’s regions and workers most affected by industrial change.

New production technologies are changing Europe’s industrial landscape and play an increasingly important role in determining the ability of European business to compete globally. They will create jobs through a number of channels, and technologies delivering higher productivity can benefit the wider economy. They may also have a deeper impact on the nature and availability of work. The future of Europe's industry will depend on its ability to continuously adapt and innovate by investing in new technologies and embracing changes brought on by increased digitisation and the transition to low-carbon and circular economy. At the same time, global competition is higher than before and the benefits from globalisation and technological progress are unevenly spread across our societies. The Juncker Commission wants to address this.

President Juncker's Political Guidelines have underlined the importance of a strong and high performing industry for the future of Europe's economy. The creation of jobs and growth through innovation and investment has since been at the centre of the Commission's key initiatives. The Juncker Plan (the Investment Plan for Europe) and the Capital Markets Union help to mobilise resources to boost economic recovery; EU support for innovation helps industry and in particular SMEs play to their strengths; Europe is at the forefront of the global push for a low-carbon and circular economy through its circular economy, clean energy and low carbon economy initiatives; key enabling technologies help industry compete globally; the Digital Single Market Strategy, the accompanying Digitisation of Industry Strategy and the Action Plan on 5G for Europe help businesses take advantage of new developments and create a properly functioning data economy; the Single Market Strategy makes it possible for industry to access a market of 500 million consumers and to connect in value chains free from customs or technical barriers; and the New Skills Agenda for Europe helps equip the people behind our industry with better skills.

These horizontal policies that concern all industries are complemented by a number of specific policies for strategic sectors, including a Space Strategy to further build on Europe's strong and competitive space industry, a proposal for a European Defence Fund which will act as a catalyst for a competitive and innovative European defence industry, and a wide range of initiatives for clean, sustainable and competitive car industry (including the Europe on the Move initiative, actions to curb air pollution by cars and GEAR2030 action), and a Communication on steel to ensure Europe's steel industry can compete fairly in world markets.

More information: