

Letter from the EIB (Juan M. Sterlin Balenciaga and Viviana Siclari) to CEE Bankwatch Network, and Bankwatch's answers (in bold italics) to some of the comments contained in the letter:

Dear Madam/Sir,

We refer to the petition campaign addressed to Mr Philippe Maystadt, President of the European Investment Bank (EIB), and launched by CEE Bankwatch through its website www.fossilfreeeib.org on the occasion of the publication of the report “Change the lending, not the Climate”.

While the EIB welcomes comments from all stakeholders interested in its activities, we are concerned by a number of inaccuracies contained in both the petition and the report, which in our opinion, deserve some further clarifications.

As the EU Member State’s financial institution, the task of the EIB is to contribute towards the integration, balanced development and economic and social cohesion of the EU Member States by supporting the EU’s key policy objectives. As such, the Bank’s activities in the energy sector are balanced in line with these objectives, and contribute to their achievement, in particular regarding: (i) Environmental sustainability (ii) Competitiveness in energy supply and (iii) Security of supply;

As a result, EIB energy lending concentrates on five priority areas: renewable energy (RE); energy efficiency (EE); research, development and innovation (RDI) in energy; security and diversification of internal supply (including trans-European energy networks); security of external supply and economic development (concerning Neighbour and Partner Countries).

Readers will note that the EIB's description of its energy lending does not contain any of the words “oil”, “gas”, “coal”, “fossil fuels” or “extractives”. Instead, “security and diversification of supply” whether it's inside or outside the European Union, is used to describe the non-sustainable, fossil heavy chunk of the EIB's energy lending.

Contrary to what is stated in the petition, the EIB applies exactly the same standards and criteria for its lending both inside and outside the EU. Furthermore, we would like to underline that EIB loans do not incorporate any subsidy element, but reflect the Bank’s attractive funding conditions on the financial markets. This, and the fact that EIB lending is project-based, long term, and closely linked to factors such as the availability of eligible projects and the demand of the type of financial products that the EIB can provide, is therefore of paramount importance when analysing the Bank’s portfolio and activities.

The Bankwatch petition makes no explicit comment on EIB standards and criteria for its lending both inside and outside the EU. What it does refer to is the marked tendency for fossil fuel projects carried out in the developing world “to aggravate and even create acute local problems such as poverty and human rights abuses” – and because the EIB has unfortunately poor oversight capabilities over its projects, EIB backing for such projects in Africa, for example the West African Gas Pipeline, necessarily comes with major risks for affected communities and the environment.

However, regarding the EIB assertion that the bank “applies exactly the same standards and criteria for its lending both inside and outside the EU”, how does this tally with the EIB’s Statement of Environmental and Social Principles and Standards where a separate chapter deals with standards in “the Rest of the World”? On environmental standards to be followed for projects outside the EU, the document states that “the Bank requires that all projects comply with national legislation, including international conventions ratified by the host country, as well as EU standards. Where EU standards are more stringent than national standards the higher EU standards are required, if practical and feasible”. These four words – “if practical and feasible” – avoid clarification, and appear to leave substantial latitude for project promoters.

In fact, EIB lending criteria for loans outside the EU ought to include, as confirmed by the European

Court of Justice in November 2008, poverty alleviation and the sustainable economic and social development of developing countries.

Analysis of the EIB's loans in the New Member States and the Global South shows that the EIB has done very little to support renewable energy in regions other than the EU-15. In developing countries, the EIB's lending has been even less sustainable than inside the EU - non-renewable energy and large transmission received EUR 6.5 billion in the period covered in our report, with renewables receiving a mere EUR 321 million.

Unfortunately there is a general lack of information about the actual outcomes of EIB projects with respect to their development impacts, with one egregious exception – the Chad-Cameroon oil pipeline, an Exxon-sponsored project that received hundreds of millions of dollars of project finance from the World Bank and the EIB despite widespread concerns pre-financing. A November 2009 evaluation from the World Bank concluded that the Chad-Cameroon pipeline has failed to reduce poverty and has not improved governance. Comprehensive details are available in this recent media article: <http://tinyurl.com/yzma2v8>

Within this context, the figures contained in your report and petition are inaccurate and do not reflect the nature and trend of EIB lending in the Energy sector.

As discussed in our report (and below), we were restricted in our analysis because of certain limitations in the way in which the EIB publicly presents its project information. Greater clarity is required on project information at the EU's bank.

EIB lending in this sector has been significantly re-oriented since 2007, when it became a major priority of its Corporate Operational Plan, to reflect in particular the EU's adoption of the Action Plan "An energy policy for Europe" and its pledge to achieve a 20% reduction of greenhouse gas emissions by 2020 compared to 1990; a 20% share of renewable energies in the overall EU energy mix; and a 20% reduction in energy consumption compared to 1990.

Page 21 of the Bankwatch report acknowledges this new energy landscape for the EIB.

However, we have to take issue with the EIB's description of the energy efficiency part of the EU action plan, that it aims for "a 20% reduction in energy consumption compared to 1990". The target for the EU approved by the European Council in March 2007 is a saving of 20% of the EU's energy consumption compared to projections for 2020, as estimated by the Commission in its Green Paper on Energy Efficiency.¹

As such, and while reminding you that "fossil fuel" projects, as described in your report, are also an integral part of several of the EU's key policy objectives, the EIB has not financed any project for the production of hydrocarbons since 2007, and projects in the refinery, storage and electricity generation from liquid or solid fossil fuels have totalled EUR 1.8 billion, which only represent 11% of EIB's Energy lending for the 2007-2008 period.

The fact that the EIB has recently not financed any project for the production of hydrocarbons should not divert attention away from the fact that the bank is – to an important extent – still continuing to support the climate-damaging extractives sector. It is clear that transmission of hydrocarbons (e.g. via pipelines or via the use of LNG terminals) is a necessary investment in the whole chain of investments in the sector. The EIB is widely expected to be a key financier of the EUR 8 billion Nabucco gas pipeline project in the coming years, despite major question marks over that project's economic feasibility and the inevitable environmental issues related to the pipeline routing.

EIB support for fossil fuel infrastructure – as acknowledged by the bank – should not be regarded as insignificant, and as much as it corresponds to supporting "several of the EU's key policy objectives", questions have to be asked about the wisdom of such EU policy objectives. In November 2007, the European Parliament passed a resolution on trade and climate change that calls for "the discontinuation

¹ Council of the European Union, Presidency Conclusions 8/9 March 2007 (7224/1/07)

of public support, via export credit agencies and public investment banks, for fossil fuel projects”.

Against this background, EIB lending for Renewable Energy projects since 2007 has totalled about EUR 4.4 billion (to which about EUR 3bn expected for 2009 could be added). These figures include large hydro power plants, which are indeed counted as RE by the EIB and considered as such worldwide.

The Bankwatch report covered EIB energy lending figures up until the end of 2008, as reliable figures for the bank's energy lending in 2009 were not available during the research period for the report. If – as we suspect – the EIB's lending for renewables in 2009 is trending up, then this is a welcome sign, and we suspect this to be the case in 2009 even when lending for large hydro power plants is discounted.

But it is important to be clear why Bankwatch – and many other organisations – choose not to include large hydro in the category of renewable energy.

The World Commission on Dams established by the World Bank is clear about the differences between small, sustainable hydro projects – those under 10 megawatts – and larger hydro projects that come with serious environmental, greenhouse gas, ecosystem and social consequences unless a wide range of conditions are met. According to the most detailed estimates available, carried out by Brazil's National Institute for Space Research (INPE), the world's 52,000 large dams contribute more than four percent of the total warming impact of human activities. In some cases emissions from a reservoir can be equal to or greater than those from a coal or gas-fired power station.

As our report mentions, “in the past seven years, the EIB has supported hydro projects and the limited information available suggests that none of them comply with the sustainability criteria set up for small scale renewable hydro energy by the World Commission on Dams”.

In fact in 2005, in a letter to the NGO International Rivers, the EIB declared that it would “align to” recommendations of the World Commission on Dams for a part of its portfolio.

In no way is there universal consensus that large hydro power plants can be described as providing sustainable renewable energy. The heavy climate impact of these kinds of projects – on a common sense level – simply rules them out of the true renewables category. If the EIB is determined to lump these projects into its “renewables” figures then these figures are inflated and present a misleading picture of the bank's sustainable energy lending.

It should be noted that the EIB has also set a minimum floor that at least 20% of future energy production projects in the EU should cover renewable sectors, and that energy efficiency and climate change considerations are systematically mainstreamed in all EIB's sectoral policies, operational activities implementing the Bank's corporate objectives and policies, and in all EIB project evaluations.

We welcome the fact that the EIB takes into account the climate change impacts of the transport and energy sectors and that the bank is currently attempting to establish a methodology for calculating the greenhouse gas emissions that are induced by the projects it finances. However, a distinction has to be noted: the EIB policy response does not ensure that the EIB will not finance projects, for example in the transport sector, with high climate impacts. For this to be proved false, the EIB would have to, for example, stop providing funding for airports – this does not appear to be on the bank's short-term agenda.

The EIB needs to develop criteria – tighter than legislation – for excluding projects on climate impact grounds and needs to set year-on-year limits and targets for reductions in the greenhouse gas emissions of its projects.

On renewables, as shown in our study and to reiterate, we recognise the rising share of renewables investments in the EIB's portfolio. The various cost estimates of the investments needed to reach the EU climate and energy 2020 targets across the EU range from EUR 13 billion at the low end (estimated by the European Commission) up to EUR 44 billion (estimated by the Dutch consultancy Ecofys) to be invested into energy infrastructure by 2020 on an annual basis – and of course the EIB should be playing an important role in these efforts. Yet in this context the 20% minimum floor for renewables projects is

definitely underambitious. This EIB target leaves the way open for up to 80% of projects to involve unsustainable energy generation, thus perpetuating the current energy generation system based on fossil fuels and undermining the target of reducing CO2 emissions in the EU by 20%. In order to comply with the EU climate targets Bankwatch believes that the EIB should completely phase out its support for fossil fuel investments.

On energy efficiency, due to the inconsistency in the information made public by the EIB about each project, it has not been possible for Bankwatch to make a more detailed assessment regarding energy efficiency. Although brief project descriptions may mention improvements in the energy efficiency of the infrastructure and equipment, there are no indications of the extent to which the loan will focus on these aspects nor about the results that are expected. The EIB should stop giving energy efficiency loans for electricity and heat generation from fossil fuels which expand capacity or extend lifetimes. This kind of lending preserves the status quo instead of providing genuine incentives for the transformation towards a green economy.

We would also like to underline that increased energy consumption and better energy availability are necessary condition for further economic growth and improve livelihoods in developing countries. The climate change/development trade-off explains why energy production and transmission is a large part of EIB lending in the developing countries.

Bankwatch readily accepts that access to energy is a fundamental need for people living in the developing world, and for businesses looking to drive forward economic development in the developing world. One key issue concerns the above-mentioned “climate change/development trade-off”, particularly how much of a “trade-off” this has to be when you consider the wealth of renewable energy resources that developing world countries possess. The potential for the development of renewables in the developing world, specifically to provide clean energy for use in the developing world rather than for export, is vast. It would involve a large number of relatively small scale, targeted projects. For the EIB to finance such projects would indeed reflect its requirement to promote sustainable development in its non-EU lending – yet the EIB's tendency to focus exclusively on larger scale, often export-oriented energy projects suggests that the bank is not yet fully equipped to make a real sustainable difference for the developing world's energy needs.

Nevertheless, a few examples demonstrate the EIB's commitment to RE and EE financing also outside the EU: in 2007, the EIB lent EUR 500m to China alone to support its climate change strategy; in 2008, a EUR 150m framework loan mostly for renewable energy in India was signed, and the EIB lent EUR 40m for the production of PV panels in South Africa; a EUR 40m loan to FirstRand Bank to promote energy efficiency and renewable energy projects across South Africa was approved in December 2009.

Bankwatch welcomes these initial efforts on the part of the EIB to support clean energy generation in the Global South. Nevertheless, the scarcity of information about these investments provided by the bank makes public assessment of them next to impossible. The loan to China worth EUR 500 million is one such example of this problem.

Press releases accompanying the loan explain that, apart from energy efficiency and renewables, the money may be spent on carbon capture and storage as well as afforestation. It is not clear how much of the loan will be spent on these. Neither of these categories can be classed as renewables or energy efficiency, hence in our recent study Bankwatch did not count this loan either as a loan for renewables or as a loan for energy efficiency. Instead it was categorised as “unclear”.

We also welcome the efforts and advances made by the EIB in its renewables lending in 2009. A recent article published by Bankwatch on the European Voice website (<http://www.europeanvoice.com/article/2009/12/greener,-but-still-too-dirty/66631.aspx>) references some of these latest projects, but it does so within the unignorable, disappointing overall energy context at the EIB – lending for fossil fuel projects shows no sign of going out of fashion in the near future.

We do not wish to provide here the full list of the EIB's tangible efforts in the Energy/Climate Change sector which, as you know, are further described in our website and in a number of our publications. While these

issues have been extensively discussed with CEE Bankwatch, and other organisations, in several meetings and correspondence, the EIB remains committed to continue its ongoing dialogue with interested stakeholders on these and other issues of common interest. We are convinced that we will have further opportunities to discuss these issues with your organisation throughout 2010.

Nevertheless, and for the sake of transparency, we would be grateful if you could give the same visibility to this letter as you have given to your report, by publishing this letter in your websites www.fossilfreeeib.org and www.bankwatch.org

Yours Sincerely,

EUROPEAN INVESTMENT BANK

Juan M. Sterlin Balenciaga
Head of Unit

Viviana Siclari
Communication Officer

Civil Society Unit
Communication Department