CEE bankwatch network

EBRD policy comments

September 2013

Summary of Bankwatch's comments on the EBRD's draft energy strategy

For more information

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The EBRD was well ahead of other financial institutions when it initiated its Sustainable Energy Initiative eight years ago, strategically directing its investment towards energy efficiency and renewables projects. But continued support for fossil fuels has proven incompatible with its ambition to lead its beneficiary countries' transition to low-carbon economies. It is high time for a new strategic direction out of fossil fuels, and a halt to coal lending is an urgent first step to make. According to Carbon Tracker, up to 80 percent of fossil fuel reserves need to stay in the ground if we are to stay within the globally agreed 2 degrees warming limit, leading to a risk of stranded assets in the energy sector. The bank's role should be to reinforce the market signals that foster a low-carbon shift. In order to do this, it must concentrate its limited resources on the transformation to an energy-efficient, sustainable renewables-based economy.

To set a clear framework for action, a bank-wide greenhouse gas (GHG) reductions target based on climate science is needed for EBRD investments, to ensure large GHG emissions reductions. The draft strategy doesn't have a climate target, nor does the EBRD have a one – only the Sustainable Energy Initiative target, which does not cover all energy investments and is not based on climate science or modelling. The bank already claims carbon neutrality in its portfolio, however only by claiming, for example, that the new 600 MW Sostanj lignite-powered unit in Slovenia is an energy efficiency project with large GHG savings. Even if we accept such claims, with 50-70 percent global emissions reductions needed by 2050, carbon neutral is no longer good enough and a strong downwards trajectory is needed.

The draft strategy recognises the urgency of climate action, and the importance of energy efficiency and renewable energy. It does so within a market atmosphere of general uncertainty, the need to eliminate fossil fuel subsidies (though the EBRD does not seem to count its own loans here), the social and environmental externalities of energy, market distortions such as the increase in US shale gas production and the current low carbon price (which slows down the transformation

away from fossil fuels). However, this apparent emphasis on the low carbon transition only translates into a potential slight reduction in greenfield coal investments. The draft acknowledges the carbon lock-in problem and that the challenge is immediate, yet support for the hydrocarbons sector as well as coal mining and rehabilitations continues as usual. Additionally, the bank opens the door to highly controversial shale gas investments.

While the bank's focus on energy efficiency and renewable energy can help bring positive change, extending that transition over an undefined period of time and simultaneously continuing to finance the same consumption patterns, hydrocarbons infrastructure etc. is not likely to bring about a sufficient shift to energy efficient, renewables-based economies.

Given the urgency of climate action and investment into energy efficiency and sustainable renewables, there is no space for coal and lignite-fired power generation in the medium term, as CCS technology is unlikely to be commercially available as a competitive energy option any time soon. Even fossil fuel refurbishment and especially replacement projects are often incompatible with 50-70 percent global GHG reductions and 80-95 percent EU reductions by 2050. Such projects may bring plants into compliance with current legislation but may inhibit the transition to an energy efficient, new-renewables-based economy. Therefore, any replacement in energy generation after 2013 for coal, and 2014 for gas, should be turned down by the EBRD on the basis of climate science.

The new energy strategy must eliminate the risk of further high-carbon lock-in by excluding further lending to coal power plants, coal mining and should significantly limit its lending to other fossil fuel projects. The EBRD should establish an emissions performance standard (EPS) at the level of 350 g CO_2/kWh and specify the level of its planned shadow carbon price.

Summary of recommendations

- Introduce a scientifically-grounded bank-wide climate target and measures to support countries of operations and the private sector to deliver on (anticipated) EU and international climate commitments.
- Make a clear statement that tackling climate change takes precedence over opening new markets, ie. not every market that can be opened, should be.
- Clearly explain the bank's view of the climate trajectory it is following in different regions. The variation between the EBRD's countries of operation is vast. There are some basic standards which must apply to all EBRD projects, but the bank should show its assumptions about future climate commitments for the different countries of operation as well, otherwise the strategy will simply be a 'lowest common denominator', holding EU accession countries only to the same commitments as Early Transition Countries.
- Make it clear that for EU accession countries, its projects will be in line with EU (forthcoming) 2030 and 2050 climate commitments.
- Participate only in those 'no regrets' projects which contribute to affordability, security and environmental sustainability at the same time.
- Assess the bank's role in the energy

sector/low carbon transition over a longer period than the five years of the strategy.

- Regarding coal:
  - As a first step to phasing out all fossil fuel investments, immediately halt lending for coal projects involving capacity expansion or lifetime extension.
  - If the bank nevertheless insists on restricting coal investments by means of technical criteria rather than coming up with a clear political position, it needs to:
    - Set criteria that apply to rehabilitations and coal mining projects, not only greenfield coal plants.
    - State at which level its carbon shadow price will be set and ensure that it is set high enough to make a real difference in project appraisal
    - Close the loophole of 'realistically available options' by stating how it will independently and transparently assess such alternatives, rather than just relying on project promoters and governments.
    - Introduce an emissions performance standard at the level of 350 g CO_2/kWh
- Restrict involvement in the coal sector to resolving environmental legacy issues from existing or decommissioned mines or improving health and safety, without supporting capacity expansion. Increasing the efficiency of coal mining and combustion is a poor use of the bank's resources for an industry that should be winding down.
- Within the context of low carbon transition, the urgency of climate action, the lock-in argument and the existing subsidies, strictly limit support for the hydrocarbon sector, including avoidance of supporting capacity expansion or lifetime extension.
- Demonstrate how the lock-in problem is addressed when it comes to new hydrocarbon-based generation or exploitation of hydrocarbons.
- Clarify intentions with regard to unconventional oil and gas, how the bank sees its role and the overall potential in its country of operations, as well as the environmental and climate limitations it sees to such activities. Supporting production of unconventional oil and gas is incompatible with the low-carbon transition and should not be a focus for the bank.
- Explain the scale of changes needed to diversify economies away from hydrocarbons, and scale up support for energy efficiency and the strategies the bank will use in different regions.
- Limit investments in the refining sector to environmental improvements which do not contribute to capacity expansion. However bearing in mind that oil companies are not among the most needy, the bank should rather look for opportunities to decrease demand for oil products by undertaking projects which decrease demand for transportation or which support a shift to more efficient modes.
- Do not allocate resources for CCS development. Such resources would be

better targeted towards residential energy efficiency and sustainable renewables.

- Narrow down EBRD investments in the nuclear sector to safe closure and decommissioning, as well as the safe and secure management of radioactive waste and spent nuclear fuel, to exclude any basis for the bank to support the further capacity expansion or lifetime extension of nuclear units.
- Prioritise the thorough integration of renewable energy in regional energy markets with interconnectors so as to limit the need for fossil fuel based back-up capacities.
- Ensure that interconnections are aimed at exchange of electricity and not predominantly for importing renewable and coal-based electricity into the EU.
- Make sustainable renewables (with the associated enablers – grids, interconnectors), alongside energy efficiency, the centrepiece of the bank's intervention.
- Tighten up the definition of demand-side energy efficiency projects and avoid participating in projects where limited energy efficiency improvements are outweighed by overall increases in fossil fuel production/combustion
- Be more specific as to what type of energy efficiency and renewable energy investments the bank will support. Residential sector energy efficiency is crucial, however this is still at a very low level in the bank's operations. The bank needs to diversify away from hydropower as the predominant form of renewable energy in the region of operations, both due to its frequent non-sustainability and because of greater added value in other forms of renewable energy.
- Better analyse the social impact of cost-reflective prices and what impact they would have on the region's households to assess what are the best actions and a timeline for them.
- Explore whether deep private sector participation in the energy sector in the EBRD's countries of operation is even likely to continue to develop without subsidies such as government loan guarantees, tax breaks, or other production subsidies. Similarly the high level of corruption in the region's energy sectors needs to be explored and steps outlined on how the EBRD will seek to address the problem.
- Include at least one indicator on GHG emissions which is related not to GDP but to per capita levels of emissions or to absolute decreases/increases over a defined period of time, as global decreases need to be absolute, not only relative to GDP.
- Include an indicator on jobs created per kWh of energy produced. This indicator will show the macroeconomic effects of investments in energy efficiency in buildings and dispersed renewable energy sources versus investments in fossil fuel based energy sources and provide a source of comparison between different countries of operation pursuing different energy mix choices.