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EBRD Policy Brief

EBRD Annual Meeting, May 2013

Review of the EBRD's Energy Policy

For more information

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Background

To avoid the worst impacts of climate change, addressing the climate crisis by drastically reducing GHG emissions of 80–95% in developed countries and 50–70% globally is becoming ever more urgent. While the developed countries need to take the lead on this, all of the EBRD's countries of operations need to make significant reductions in emissions compared to business as usual and need to develop their renewable energy and energy efficiency sectors to avoid becoming uncompetitive in these areas.

During the past few years there have been some very welcome developments in the EBRD's energy lending, such as a large increase in its energy efficiency and new renewables investments, and the bank should continue to develop these areas, and especially to expand demand-side energy efficiency. However, this good news is spoiled by the bank's continued financing of fossil fuels, which made up almost half (48%) of its overall energy lending in the period. In particular, its increasing financing of coal and oil projects is problematic, as each of these received investments equal to the amount of new renewables financed in 2011.

The current review of the EBRD energy policy is a crucial opportunity to provide a clear frame allowing the Bank to support the transition of its countries of intervention to low carbon and sustainable models. Yet, the indications that we have from the current revision process regarding the direction that EBRD's new energy policy is exploring are very worrying and seem to contradict our main recommendations:

- Exclusion of fossil fuels, particularly coal
- Exclusion of other dirty energies, eg. nuclear and shale gas
- Adoption of targets for greenhouse gas emissions reductions from the EBRD's projects
- Support to renewable energy with stringent sustainability criteria and planning
- Increase and improvement of the energy efficiency lending

Exclusion of fossil fuels, particularly coal

It is necessary to avoid an increase of more than two degree increase in global temperature: According to calculations by the International Energy Agency (IEA), 80 percent of the cumulative CO2 that can be emitted between 2010 and 2035 if the world is to have a chance

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of keeping the global mean temperature rise below two degrees centigrade is already locked into existing capital stock. For a two-degree scenario, all investments after 2017 (ie. Investments which are being planned now) will need to be in zero-carbon utilities, unless existing infrastructure is scrapped before the end of its economic lifespan.

Public support to fossil fuel projects is inconsistent with the EU climate policy and global developments : This is most obvious in smaller countries where just one thermal plant can 'lock-in' almost all of the country's allowed emissions until beyond 2050 (eg. Sostanj in Slovenia; the potential new unit at Plomin power plant in Croatia).

The additionality of the EBRD is questionable: The EBRD is often prone to argue that the countries would burn fossil fuels anyway, as a means of justifying its involvement in such projects. But if it is financing projects that would happen anyway, then it is competing with commercial banks and contravening its mandate. In addition, whatever is invested in fossil fuels is diverting limited resources away from energy efficiency and new renewables, whereas they are sectors for which a push from public institution is absolutely justified as they are less mature than the coal and oil industries, and contribute to the general interest.

Fossil fuels are not economically relevant in the long term: Even without taking into account the immense costs of their externalities (health, air and water pollution, deforestation…), prices of fossil fuel will keep rising, also in the case of coal, when renewable energy costs decline[1].

Coal carries a health bill of 43 billion euros annually in Europe alone[2]. Coal power generation in Poland is associated with the highest health impacts and costs, estimated at over 8 billion euros per year. Romania and Germany both rank second with more than 6 billion euros in health costs each. Adding such external costs conservatively doubles to triples the price of electricity from coal per kilowatt hour generated, making renewables much more competitive[3].

The World Bank recognizes also that reducing emissions from energy consumption will require large investments but, given the high energy intensity of the ECA region, ***these investments offer attractive rates of return***[4]. Renewables and energy efficiency create more jobs and tend to be more labour intensive than fossil fuel industries. With a solid transition package for workers from the latter, the shift to a clean energy model will have a positive impact on employment[5]. Furthermore, renewable energies ensure energy independence. And finally, new renewables is a sector that is fast growing and will become the norm in the long term, so locking CEE and SEMED countries into coal and other fossil infrastructures boils down to delaying their transition and making them uncompetitive in this area.

There is a broad consensus that public institutions should not support fossil fuels: from the OECD[6] to

1 http://cleantechnica.com/2013/01/24/renewable-energy-revolution-declining-costs-surging-capacity/

2 "The unpaid health bill, How power plants make us sick", Health and Environment Alliance, 2013

3 Full cost accounting for the life cicle of coal , N.Y Accademy of Science ISSN0077-8923

4 Source: WB report "Growing Green, the economic benefits of climate action".

5 "Employment impacts of climate policies can go both ways. New energy technologies generate jobs as do energy efficiency investments and better management of natural resources. But higher energy prices can also cause job losses in traditional energy generation – including mining – and make energy intensive firms that fail to modernize uncompetitive. Short-term job creation and losses occur in those sectors directly affected by climate policies, while medium and longer-term labor market effects also affect supply chains and lead to changes in capital stock, innovation and deployment of new technologies. It is difficult to predict the net effects, just as it has been in other major transformations. With the introduction of office automation and IT, many predicted large job losses as a result of greater efficiency. Instead, while some jobs disappeared, entire new jobs were created and greater productivity increased the demand for IT services. So rather than trying to predict net labor market outcomes, it is best to focus on whether countries are prepared to facilitate job transitions."

6 OECD, Council Meeting at Ministerial level, 24-25 June 2009, Declaration on Green Growth: "We, the Ministers representing the governments of [all OECD member countries], […] encourage domestic policy reform, with the aim of avoiding or removingenvironmentally harmful policies that might thwart green growth, such as subsidies: to fossil fuel consumption or production thatincrease greenhouse gas emissions; that promote the unsustainable use of other scarce natural resources; or which contributeto negative environmental outcomes."

the European Parliament[7] official reports and public statements have been calling for an end to public funding for fossil fuels and a redirection of these funds into sustainable alternatives for years. More recently and in the SEMED region, the members of the European Parliament clearly requested the EBRD to consider a phasing out fossil fuel lending[8]. The Nordic investment Bank has already added to its exclusion list „New base load power plants with an installed capacity above 50 MW(e + th) mainly fuelled with coal or fuels with a similar fossil carbon dioxide intensity." As explained above, it may not mean that there will not be any new coal plants, but they need to be financed by the private sector when public banks have a more important role to play to foster the energy transition.

Recommendations:

- The bank should completely phase out investments into expansions of the carbon-intensive energy sub-sectors and limit its investments in the carbon-intensive sectors only to energy efficiency or safety projects that neither increase the lifetime nor increase the capacity of the energy or mining facility. The bank should not commence investments in shale gas, nor assume that CCS will become commercially operational in the foreseeable future.
- Any replacement in energy generation starting construction from 2013 for coal and 2014 for gas should be turned down by the EBRD on the basis of climate science.
- The bank needs to tighten up its definition of energy efficiency in power generation for the purposes of inclusion into the Sustainable Energy Initiative. Efficiency improvements need to be more ambitious and based on climate science calling for a worldwide decrease of CO2 emissions of 50-70 percent by 2050.

Exclusion of other dirty energies

The EBRD's commitment not to finance the construction of new nuclear reactors is welcomed. As the problem of nuclear waste has not been solved, its economics are not improving, uranium mining is an extremely hazardous and polluting industry, and safety remains a concern after Fukushima, the bank should maintain and strengthen this stance. As the bank's policy allows support for operating reactors in terms of safety improvements, which is in practice allowing the bank to support the life extension of ageing Ukrainian reactors, the bank should further clarify its stance as follows:

- The bank should only finance the de-commissioning of nuclear reactors and nuclear waste management.

Adoption of climate objectives

The policy should not set the grounds for an approach such as "make sure there are no alternatives before financing climate-damaging projects", which in practice means a business-as-usual direction. If the new policy is not clearly climate-oriented, if it doesn't set climate targets in accordance with IPCC guidance and allow for a purely project-by-project approach, in practice the Bank will fund what countries propose in their inertia, in some cases the dirtiest options.

7 European Parliament resolution on trade and climate change, 29 November 2007, paragraphs 29 and 30 asking for the end of funding for fossil energy by the EIB. See http://www.europarl.europa.eu/oeil/FindByProcnum.do?lang=2&procnum=INI/2007/2003

8 *The representatives of the Union in the governing bodies of the EBRD should encourage the EBRD to foster the transition of the Southern and Eastern Mediterranean towards energy-efficient market economies by means of a feasibility study on the phasing out of fossil fuel lending, including lending for coal mining and related energy production and the transfer of renewable energy and energy-efficient technologies.* http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A7-2012-0142&language=EN

Support to renewable energy with stringent criteria and planning

The increase in renewables lending brings with it new challenges that need to be addressed if renewable energy is to retain its integrity as an environmentally acceptable means of energy production. The example of Bulgaria shows that the rapid but poorly planned expansion of renewable energy can be environmentally damaging. The fact that the EBRD once again began to finance large hydropower plants in 2011 after a long time is a concern given the high environmental impact of the three projects approved. The EBRD needs to adopt strict sustainability criteria for renewable energy and to contribute to careful planning of these technologies with national and local authorities.

Recommendations

- The EBRD needs to adopt more stringent sustainability criteria for its renewables projects. Our proposals on what should be regarded as sustainable renewable energy are in our report 'Tug of War', published in 2012.
- The bank should continue diversifying its renewables portfolio so that new renewables other than wind are more heavily supported, especially solar.
- The spread of renewables investments across the countries of operation needs to continue to be improved.
- The EBRD should ensure that its investments contribute towards a more balanced and diverse RES mix on the country level, so some RES sources are not favoured excessively, e.g. hydropower or wind projects, particularly in countries that already have an imbalance e.g. Albania, Georgia.
- Renewable energy installations, as with all energy installations supported by the EBRD, should primarily be aimed at satisfying local needs, in order to avoid situations where countries' best potential are developed for export needs, leaving limited potential for domestic needs.
- The EBRD should assist in the development and financing of the following:
    - assessments of the potential for improving energy efficiency for end–users
    - Sustainable Energy Action Plans or Renewable Energy Action Plans + Energy Efficiency Action Plans.
    - Strategic Environmental Assessments of the above plans
    - creation of structures for investments in public buildings
    - creation of markets for energy efficiency companies
    - supporting producers of energy efficiency and RES equipment
    - continuing support to ESCOs
    - providing technical assistance in the creation of legal and regulatory frameworks for RES and EE legislation
    - assessments of future energy consumption and development of demand management plans

Increase and improvement of the energy efficiency lending

It is encouraging that the EBRD's financing for energy efficiency has almost quadrupled since 2006 and that the bank has indicated its intentions to undertake more residential energy efficiency projects, which can contribute substantially to emissions reductions as well as reducing energy or fuel poverty as well as creating jobs.

However, too often, the bank counts fossil fuel projects as energy efficiency projects due to a decrease in emissions per unit of output, without properly taking into account the fact that without the

project a different alternative may have been implemented that may have brought significant absolute decreases in emissions. The bank is too accepting of projects that maintain current overall emissions levels, when in fact massive absolute emissions reductions are needed, particularly in countries that are already in the EU or have aspirations of joining.

Besides, demand-side energy efficiency is always more efficient than supply-side and as such the bank needs to increase its efforts to finance this challenging sector.

Recommendations

- The EBRD needs to expand its demand-side energy efficiency investments, particularly residential energy efficiency.
- Credit lines need to have reasonable interest rates and it is to be expected that these would be lower if the loan were partly guaranteed.
- The EBRD needs to publish information on the results achieved through its energy efficiency and renewables credit lines, in terms of loans disbursed, CO2 emissions reduced, and projects that were supported.
- Benefits from grant co-financing for the projects must be passed on to the end users, not eaten up by bank fees and high interest rates.
- Where local banks are not willing to offer low interest rates, the EBRD should consider launching municipal funds for energy efficiency investments.