

EBRD Policy Brief

For more information

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New draft energy (read oil, gas & coal) strategy at the European Bank for Reconstruction and Development

We need to take climate action immediately, but we'll continue to finance fossil fuels

What the strategy should be about

The European Bank for Reconstruction and Development (EBRD) is a public development bank, with a mandate to foster the transition to market–oriented economies and sustainable development. During the last few years, the bank has increased its focus on energy efficiency and renewable energy projects, yet undermined this direction by financing coal and other fossil fuels¹.

The EBRD must stop financing fossil fuels and concentrate its limited resources on the transformation to an energy-efficient, low carbon, sustainable renewables-based economy. The bank's role should be to reinforce the market signals, through its energy policy, that lead to a market environment that fosters the low-carbon shift. This market signal should consist first of all of a clear climate target for EBRD investments, to ensure that large greenhouse gas emissions reductions are being supported.

The bank already claims to be better than carbon neutral in its investments, however it has achieved this only through dubious means such as claiming that the new 600 MW Sostanj lignite-powered unit in Slovenia is an energy efficiency project with large greenhouse gas emissions 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 emissions trajectory is needed.

What the strategy is actually about

The EBRD's draft energy strategy doesn't have a climate target. It recognizes the urgency of climate action and the fact that the energy sector is the largest greenhouse gas emitter and places energy efficiency and renewable energy at the core of the transition to low carbon economies. It does so within a market atmosphere of general uncertainty², the need to eliminate fossil fuels subsidies (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 currently low carbon price (which slows down the transformation away from fossil fuels).

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The low carbon transition appears to be a central theme of the draft strategy but when it comes to the fossil fuels sector, it only translates into a potential slight reduction in coal investments. The draft acknowledges the carbon lock-in problem³ and that the challenge is immediate, yet the general support for the hydrocarbons sector continues as usual. Additionally, the bank opens the door to highly controversial shale gas investments.

One step forward, two steps back

While the bank's focus on energy efficiency and renewable energy can help bring positive change, having that transition extend over an undefined period of time and in the meantime continuing to direct bank capital towards the same consumption patterns, hydrocarbons infrastructure etc. is not likely to bring about anywhere near a sufficient shift to low carbon economies.

In addition, some of the bank's large 'renewable energy' projects have done well at bumping up the annual business volume but fall short on environmental sustainability. In 2011 the EBRD approved three large hydropower projects – in Macedonia, Croatia and Georgia – all of which are subject to ongoing official complaints in the bank's Project Complaint Mechanism. One of these – the Ombla hydropower plant in Croatia – was cancelled in May this year after a belated biodiversity assessment showed that it would seriously damage a future Natura 2000 protected area.

First step not taken

A phase out of investments in fossil fuels can start by stopping the financing for the worst of them, coal. Compared to its old energy policy, the bank introduces an assessment for coal projects. This test includes:

 the project must be the least carbonintensive of the realistically available options to meet forecast energy needsit must be implemented in accordance with the highest standards; in the case of new power plants, this means compliance with the EU's Industrial Emissions Directive – IED (emission limits, the use of best available technologies); rehabilitation projects must achieve significant efficiency gains

 the plant must comply with IED requirements in relation to carbon capture and storage readiness (including the availability of storage sites)

An analysis of realistically available options in a country may easily reach the conclusion that given the policy and investment environment, it is unlikely to have investors in new power capacity other than lignite-based, for example, because no client approaches to bank to exploit renewable energy potentials in the country/the country's energy sector is dominated by the coal power plants operator etc. The coal screening is likely to prevent financing of some bad projects, but it leaves the door open for coal expansion in Serbia and Kosovo, for example, which are keen to continue to dig up lignite in the absence of government ambitions towards sustainable development. The draft does commit to introduce a shadow carbon price into project assessments, as the European Investment Bank has done for the last few years, but without stating the level at which it will be set, it is difficult to see if it will make any difference.

Other institutions doing better

The European Investment Bank is adopting an emissions performance standard (EPS) of 550 g CO2/kWh⁴, which is a welcome step forward but is subject to exceptions. It is also weaker than US plans for an EPS at 440gCO2/kWh – a level which is already in place in the UK, and close to the 420gCO2/kWh introduced by Canada, which exclude most coal projects. The World Bank has recently announced it will finance coal projects only 'under rare circumstances', while the Nordic Investment Bank no longer finances any coal projects above 50 MW.



What the EBRD must now do

- Set an ambitious, timebound climate target to ensure that its investments follow a strong downward trajectory in line with climate science.
- Recognise that its role as a public financing institution differs from that of a government and that it has every right to refrain from financing carbon-intensive investments.
- 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:
 - 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 gCO2/kWh
- Revise its carbon accounting methodology to ensure that indirect emissions are also counted and that the baseline for comparisons is set as the most environmentally acceptable alternative.
- Prioritise residential energy efficiency investments and renewable energy projects in accordance with strict sustainability criteria.

Notes

- 2006–2011: 6.7 billion euros lent for energy projects, 48 percent of which went to fossil fuels. In this period, the EBRD increased its coal lending from 60 million euros to 262 million euros.
- Generated mainly by the unpredictability of carbon prices and the capital intensive nature of the sector.
- 3. 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 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.
- 4. The EIB's new energy policy was approved on 23 July 2013. The 550 g CO2 /kWh is a technical criteria that a commercial bank, HSBC, has also been using since 2011 already, for projects in developed countries.