CEE bankwatch network

EIB Policy Brief

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Eight things to give the EIB's forthcoming climate policy meaning, purpose and ambition

For more information

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The European Investment Bank, as the EU's lending arm, needs a lending policy on climate protection which properly reflects the EU's climate policies and legislation.

With climate protection set to be a high priority for the EU in the next five years and beyond, the EIB needs to streamline climate considerations across its lending to different sectors and in different regions as quickly as possible. Such a policy needs to deliver on multiple objectives, with the combating of climate change and the promotion of sustainability absolutely central to these.

The draft version of the new EIB climate policy[1] has recently been published and put out for consultation with the public. How far the policy – in its draft version at least – will allow the EIB to get its climate change priorities and responsibilities fully in order remains a moot point

The draft text released in January contains the encouraging signal that the EIB is developing a methodology to assess the emissions impact of its lending for airports, though it also points out that such climate criteria for 'intermediated loans', one of its largest portfolio sectors, will not yet be applied. For these EIB loans, extended to small- and medium-sized enterprises via intermediary banks, the policy draft states that the EIB will continue "to examine ways in which, where relevant and reliable, the GHG impact of SME lending can be assessed and reported."

There are some further gaps too. The climate policy in draft form at least brings no new proposals for additional instruments that the EIB could deploy to keep the most damaging projects out of its portfolio. Bearing in mind the acute climate change implications for developing and developed economies alike, the draft policy falls short on committing to sector-wide assessments at EU level. For instance, exactly how many airports could the EIB finance across Europe between now and 2020 when member state economies and the general EU economy need to be on a very low carbon footing by 2050?

1. http://www.eib.org/about/partners/cso/consultations/item/public-consultation-on-eib-approach-to-supporting-climate-action.htm

The draft policy also fails to consider a full phase out of EIB lending for fossil fuels extraction and power generation, gas and oil transmission and greenhouse gas (GHG) intensive transport infrastructure by 2020. Which is why we've put together an eight point list that would help take the forthcoming climate policy to a new, more coherent and ambitious level.

1. As the guardian of EU Treaties and the house bank of the EU28, the EIB needs to develop a comprehensive strategy that supports EU long-term (2030 and 2050) objectives for greenhouse gas emission reductions.

In June 2014, the European Council confirmed the validity and importance of the EU 2050 objectives for GHG emission reductions. At the European Council in October 2014 it was further agreed that by 2030 the EU will increase energy efficiency by 27 percent (compared to 2005 levels), cut emissions by at least 40 percent (compared to 1990 levels) and provide at least 27 percent of the EU's energy from renewable sources. The EU cannot follow this path unless the EIB both addresses the total climate impact of its financing operations within and outside the EU and drastically reduces the GHG impact of its loans in the short, medium and long-term.

The EIB needs a climate policy that will ensure its portfolio is compatible with the EU 2030 and EU 2050 climate objectives at the project level as well as taking into account the cumulative climate implications of its entire portfolio and of some of the sectors within it. For example, what impact do all the oil pipelines and highways financed by the EIB have on the 2050 climate objectives and the EU 2050 Transport Roadmap? How many highways in total can the EIB finance without taking the EU economy generally or a particular member state beyond its 2050 decarbonisation trajectory? And how to ensure that the EIB sticks to providing financial support to only those airports and not more?

These type of calculations cannot be made via project by project assessment. Nor are the member states themselves able to assess how their own specific development choices affect the EU as a whole. The EIB, however, is uniquely placed to have an overview of the financing sought by specific types of project promoters across the EU over time – when excessive levels of GHG intensive infrastructure appear in its project pipeline and on its books, it would be able to take concrete steps to restrict further lending of this kind.

The new climate policy requires an obligatory macroeconomic analysis into the impact of EIB lending on EU member states' decarbonisation trajectories. This would include not only the impact of projects on a single country's emissions but also giving due consideration to the GHG emissions produced by transboundary projects – such as oil and gas pipelines – that affect more than one EU country, as well as taking into account the emissions produced by EIB financed projects outside of the EU, which often serve the energy needs of the block.

Such an analysis is needed to minimise the risk of generating 'stranded assets' (see point 5 below), both at member state level and, more widely, at EU level. It would also contribute towards ensuring maximum benefit from EIB loans for the EU economy and the wider public.

2. An EIB climate policy addressing and aimed at the long-term perspective would lay the ground for the introduction of tools and instruments that would not only serve climate objectives but also ensure long-term financial stability.

A long-term climate perspective, enshrined in the new EIB climate policy, would have consequences for the way in which project finance is conducted, especially when it comes to infrastructure projects that do not result in significant direct GHGs yet still result in high-carbon economic development, i.e. airports, highways, oil pipelines, certain industrial facilities, oil refineries, major gas supply pipelines and LNG terminals. A long-term perspective would duly consider indirect GHG emissions in total project

costs, helping in turn to promote more rational use of EU funds.

Thus the EIB climate policy must include an obligation to periodically review Emission Performance Standards of power plants, it must put a cap on the EIB's annual emissions from projects and must establish a trajectory – or a road map – for a gradual but constant increase of investments in demand side energy efficiency and dispersed renewable energy technologies that benefit local economies and communities.

3. The EIB needs a climate policy that will help to interpret the objectives of the EU.

The EIB needs a climate policy that will help to interpret EU objectives related to energy security or transport infrastructure as these can often appear contradictory due to vague definitions. The EIB needs to make order in this chaos, otherwise it will finance investments that contradict one another or cancel out each other's effects. For example, EIB support for airport extensions or motorway network developments may undermine emissions reductions generated via other bank support extended to public transport.

4. A stable climate is a global public good and GHG emissions do not recognise borders.

The EIB needs a climate policy that will assist and guide the bank to apply the same strict climate criteria for its operations in the Enlargement and Neighbourhood countries as those it applies to loans and operations within the EU itself.

5. The EIB needs a climate policy to avoid its assets becoming stranded in carbon intensive infrastructure and to avoid the risk of a new market bubble – this time, a carbon bubble.

Currently, companies involved in oil and gas extraction and coal and lignite mining are valued based on the assumption that all the reserves on their books will be burned. This is at odds with the science of climate change and with the EU 2050 climate objectives, thus creating a risk of a so-called carbon bubble. If EU climate commitments are upheld and other global players agree to stabilise the rise of GHG emissions to below 2 degrees, then 80 percent of the fossil fuel reserves now on the books of fossil fuel companies cannot be burned – their de facto value should thus be zero, whatever the current valuations may be.

This poses a systemic risk not only to these companies that will face a loss of value but also to any financial institutions holding their assets in the form of equity or bonds, or that are exposed to these companies in any other form.

Further loans to companies extracting fossil fuels, constructing or operating fossil fuel enabling infrastructure (including refineries, roads, airports and ports) or using fossil fuel generation or heating facilities only exacerbate the risk of a carbon bubble further. The EIB must address this risk in its climate policy and it must devise a new pattern of lending that reduces the carbon bubble risk.

6. The EIB needs a climate policy to be able to improve the effectiveness of its financing and must address the problem of disadvantaged regions within the EU.

This especially refers to smart grids enabling demand-side energy efficiency, with a particular focus on the housing sector, as well as small-scale dispersed community-owned renewable energy sources. There is a gap between the financing that is currently on the table for such projects and what is required to implement the EU's ambitious energy efficiency, renewable energy and GHG reduction targets for 2030, not to mention the 2050 climate objectives.

Investment needs in energy efficiency, renewable energy and sustainable transport across Europe are huge, particularly in central and eastern Europe (CEE)

– the EU region where most clean energy progress needs to be made.

The EIB is best placed to fill this financing gap and thus provide a cue for action to the private and public sector. For this it could and should develop tailored solutions for the renewables and energy efficiency markets in the CEE region. The case for such action is compelling given that the financial markets in CEE and in the EU Neighbourhood region are small and underdeveloped compared to their equivalents in western European member states.

Interestingly, already existing EIB instruments for financing energy efficiency in the CEE region, such as ELENA and JESSICA, have found limited use. This makes it imperative for the EIB to consider the obstacles that existing instruments have faced, assess the setting up of new instruments and develop a new approach to lending in the CEE region. The EIB climate policy would be the perfect tool through which to ensure that the bank's financing for energy efficiency is well tailored to the needs of beneficiaries in the CEE countries.

7. The EIB needs to boost energy efficiency and renewable energy in its Climate Action investment programme.

Energy efficiency has far reaching implications going way beyond the energy sector – it is the cheapest and the most secure long-term way of ensuring EU energy security, creating new innovative jobs and supporting the micro, small and medium sized companies that are the backbone of the EU economy and that provide the bulk of jobs across the continent.

Changes in operating support, administrative barriers and insufficient grid capacity have led to the withdrawal of investors from CEE sustainable low-carbon markets due to low rates of return and high investment risks. At the same time, interest among communities and municipalities in locally owned renewable energy installations and energy saving measures has risen as they are perceived as solutions to securing energy and jobs for citizens.

Even though the multiple benefits of local energy projects and smart technologies have become more and more accessible, the initial investments needed are still a significant burden for a small community. While EU structural and investment funds are to some extent covering such projects, the lack of experience of institutional investors and various administrative burdens continue to make raising capital problematic.

8. The EIB needs a climate policy that reflects on the environmental impact of the bank's operations.

There is a tendency to argue that the need to combat climate change justifies loosening environmental standards, especially when it comes to nature protection. This issue is vital in the context of hydropower developments, wind energy's sometimes negative impacts on birds as well as other adverse influences on protected sites and habitats that renewable energy installations can have. The EU is losing its biodiversity every year and thus cannot afford to make any compromises related to nature protection.

The EIB climate policy should ensure that nature and environmental protection standards and legislation are fully respected in all EIB lending operations.

Get involved

Find out about the public consultation process for the new EIB climate policy, including the opportunity to send written comments up to March 16, at:
http://www.eib.org/about/partners/cso/consultations/item/public-consultation-on-eib-approach-to-supporting-climate-action.htm