

The climate crisis and the role of Europe's public banks

[For more information](#)

Contact

Ionut Apostol
EBRD campaign co-ordinator
E: ionut@bankwatch.org

Anna Roggenbuck
EIB campaign co-ordinator
E: annar@bankwatch.org

CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

www.bankwatch.org

With each passing day, there is less chance that we will manage to keep the planet within the "safe" limit of two degrees Celsius global warming that would avoid disastrous climate change. Governments around the world are failing to take coordinated action to limit polluting emissions. When it comes to our energy supply, although we are installing more sources of renewable energy and we have started paying attention to energy efficiency measures, there's considerable interest in continuing to use fossil fuels.

Coal might be on its way out in most parts of the EU, but this will take time, and countries neighbouring the Union, such as Turkey, Ukraine or states in the Western Balkans, are still convinced that coal has an important future. Gas will be with us for some decades with the caveat that it is a 'transition fuel' while we phase out coal and phase in renewables.

But can we really afford to keep coal and gas around for years to come? Climate science shows that we have just a couple more years to radically reconsider the use of coal, gas and other fossil fuels. According to the International Energy Agency, after 2017, there should be no more new fossil fuel infrastructure built if we are to avoid runaway climate change.

In this context, this briefing looks at two European public banks, the European Investment Bank and the European Bank for Reconstruction and Development, two lenders whose financing can play a pivotal role in leveraging more private investment for sustainable energy. These two institutions are of particular interest because they are accountable to the EU and its Member States, so their lending must be in line with European objectives.

An introduction to the two banks

The European Investment Bank (EIB) is the world's largest public lender and the investment arm of the European Union. It is also a major financier of energy projects, in and outside of Europe, having lent around 62 billion euros to the energy sector since 2007. EIB lending is supposed to further EU objectives, including the EU's climate objectives on decarbonising the European economy by 2050.

The EIB's 27 shareholders are the member states of the EU. Germany, Italy, France and the UK, each with 16 percent of shares, are the biggest players.¹

The European Bank for Reconstruction and Development (EBRD) is also a public institution, owned by the European Union and other countries around the world (including the US, Canada, and Japan).² The EBRD was established in 1991 to promote democracy and free market economies in Central and Eastern Europe and countries of the former Soviet Union, and more recently its mandate has been expanded to include post-Arab Spring countries. With a lending portfolio of about nine billion euros per year, the EBRD is a much smaller lender than the EIB, but in many of its countries of operation it is one of the largest foreign investors and more important than the EIB.

Both banks regularly finance fossil fuel projects, including coal. Over the past five years, roughly a third of EIB loans for energy went to fossil fuels and between 2006 and 2011, almost half of EBRD loans went to fossil fuels. While both banks have been making significant efforts to clean up their lending in the last few years, climate science calls for much more than the slow, gradual progress the EIB and the EBRD seem to be willing to make. While the banks are now following markets, they need to be driving them.

This year both the EIB and the EBRD are reviewing their energy lending policies: the EBRD is expected to present a first draft in June, while the EIB will approve its new policy during the summer. Both institutions update their energy policies only once every five to six years, making this year an extraordinary opportunity: if lending to coal and other fossil fuels is not excluded from the policies this year, it means that such dirty projects will continue to receive public subsidies well into the next decade, in blatant contradiction with both climate science and the EU objective to decarbonise its economy by 2050.

The European Investment Bank: the EU bank contradicting EU goals

2007-2011³: 62 billion euros to the energy sector; a third of this amount (around 19 billion) went to fossil fuels; and almost 2 billion euros went to coal. 18.5 billion euros went to renewables in the same period (note that the amount is less than for fossil fuels) and another 5 billion euros to energy efficiency. Energy efficiency remains marginal in the EIB's lending despite being the most rational way to reduce emissions in our economies and a well-documented source of job creation.

Some of the EIB's loans for coal or gas projects are dubbed „efficiency” loans by the bank because the EIB claims that such loans are meant to contribute to reducing emissions per unit of energy produced („make a coal plant cleaner”). We argue that loans of this kind to fossil fuel projects in fact allow the plants to continue operating longer and hence emit much more in the longer term than they would have if they stayed unmodernised (see the case of coal plants under the Large Combustion Directive and the Industrial Emissions Directive); moreover such loans use up valuable financial resources that could have otherwise been invested in renewables and, furthermore, they contribute to lower the price of fossil fuels hence stimulating consumption.

EIB coal and lignite projects financed in 2007-2011

397 million euros for an advanced coal plant in Du-Walsum in Germany in 2007;
 80 million euros for PPC Environment in Greece in 2007;
 90 million euros for Enel Energia Rinnovabile & Ambiente in Italy in 2007;
 440 million euros for the TEŠ 6 coal plant in Šoštanj in 2007 and 2010;
 500 million euros for the Karlsruhe power plant in Germany in 2008;
 100 million euros for the Fortum CHP And E-Metering plant in Poland in 2009;
 65 million euros for the SE Power Plant And Forest Industry in Poland in 2010;
 68 million euros for the South Poland CHP plant in Poland in 2011;
 32 million euros for the Paroseni Power Plant in Romania in 2011.

EIB energy review 2013

In summer this year, the EIB will publish its new energy policy. Given the urgency of the climate crisis, it is clear that this new document should favour projects involving demand side energy efficiency and renewable energy sources. Such projects will help reduce EU dependency on imported hydrocarbons, contribute to sustainability, and deliver initiatives that are fully cost-competitive, especially when factoring in social and environmental externalities. Crucially the EIB should end its support for coal and lignite power plants, including for their replacement with new coal and lignite-based technology and retrofitting. It should also stop supporting energy generation from gas because this is a ‘mature’ technology that does not need public financial support. Indeed one of the preconditions for EIB financing is that it should add value and compensate for when investors are not interested in a venture that would otherwise contribute to EU goals.

The European Bank for Reconstruction and Development: a public lender for coal

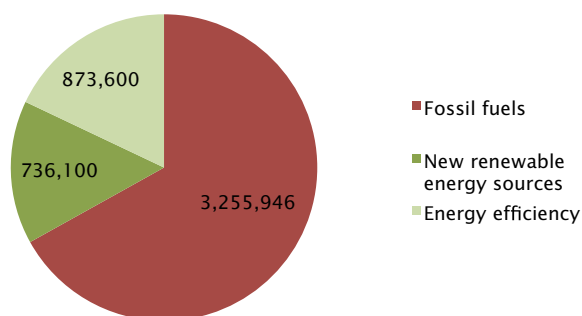
2006-2011: 6.7 billion euros lent for energy projects, 48 percent of which went to fossil fuels. In this period, the EBRD increased its coal lending from 60 million euros to 262 million euros.

In the same period, only 11 percent of the bank's energy lending went to new renewables⁴. 13 percent of the energy lending went to power and energy sector energy efficiency, though the bank does more efficiency lending in other sectors too.

Some examples of EBRD coal projects:

- Belchatow II in Poland, which received 125 million euros from the EBRD, will emit 5.5 million tonnes of CO₂ per year for the next 40 years
- The Sostanj 6 lignite plant in Slovenia, which received 100 million euros from the EBRD, will make it nearly impossible for Slovenia to meet its 2050 EU emissions reduction targets
- The Turceni lignite plant in Romania should have

EBRD energy lending 2006-2011 (EUR 000)



stopped operations in 2015 as per EU legislation, but the EBRD contributed 150 million euros to modernise the plant, enabling it to emit CO₂ for another 15 years

- The EBRD is considering a loan of 400 million euros for the 750 MW Kolubara B lignite plant in Serbia, and it has also recently expressed interest in financing a new 600 MW lignite plant near Pristina, Kosovo.

EBRD energy policy review

In June the bank is expected to publish a draft of its new energy policy, and it is unlikely that the EBRD sees the imperative of halting coal lending. Given the limited resources of the EBRD, combined with its significant political clout in its countries of operation, well-targeted energy investments could make a huge positive difference in the EBRD region. EU member states and their representatives on the EBRD's board must press the bank to do better by providing more lending for demand-side energy efficiency and sustainable renewables.

Ten reasons why Europe's public banks should not finance coal

Every coal power plant investment locks us in a future that nobody wants. A 1000 megawatt plant emits 5-6 million tonnes of CO₂ per year, or 200-240 million tonnes over its 40 year life time, as a consequence of a single investment decision.

Every euro spent on coal power is a euro not spent on sustainable solutions, i.e. renewables and energy efficiency. It takes away resources from what we will have to do anyway.

1. **It is necessary to avoid an increase of more than two degrees in temperatures globally.** According to calculations by the International Energy Agency (IEA), for a two-degree scenario, all energy investments after 2017 will need to be in zero-carbon utilities.
2. **Coal is the worst culprit of greenhouse gas emissions and other pollution,** much worse than gas power, and obviously much worse than all renewables and the more efficient use of electricity.
3. **Coal carries a health bill of 43 billion euros annually in Europe alone.** 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 competitive⁵.
4. **Fossil fuels are not economically-relevant in the long term.** Even without accounting for the huge external costs (health, air and water pollution,

deforestation), the prices of fossil fuels will continue to rise, while renewable energy costs will decline⁶. Furthermore, renewable energy can ensure energy independence by utilising locally-available, inexhaustible resources. And finally, it is a sector that is fast growing and will become the norm in the long term due to increased fossil fuel prices and climate action targets, so constructing coal and other fossil fuels infrastructure delays a country's transition and forces them to be uncompetitive. There is no need for public banks to invest in coal projects

5. **Fossil fuel industries are generally 'mature' and should not receive public support.** Fossil fuels are also already heavily subsidised - 523 billion dollars in 2011 alone according to the IEA. State aid for hard coal mining alone was estimated at 2.9 billion euros annually in Europe. Several countries in Europe are subsidising coal production, and others countries subsidise coal consumption⁷ even though there is evidence that coal subsidies are not needed to ensure the security of supply⁸.
6. **There is a broad consensus that public institutions should not support fossil fuels.** From the OECD⁹ to the European Parliament¹⁰, high-level reports and public statements have for years called for an end to public funding for fossil fuels and redirecting these funds into sustainable alternatives.
7. **As public banks, the EIB and the EBRD have the responsibility to support decisive and cost-effective action against climate change.** The benefits of strong, early action on climate change outweigh the costs, and the more we wait, the more costly it becomes to take action. The Stern Review, a well-known report¹¹ outlining the measures that the world should take to avoid runaway climate change, noted that failure to take action could cost the global economy 5 - 20 percent of global GDP each year. The EIB as the house bank of the EU is additionally mandated to further EU objectives, including the decarbonisation of the European economy by 2050. The potential for renewable energy and energy efficiency development is immense, and it could be much better tapped if the two European banks were not each wasting at least a third of their energy lending on fossil fuels.
8. **Investments in alternatives to fossil fuels and in energy efficiency bring important economic benefits.** According to the IEA, the growth in global energy demand by 2035 could be halved through the implementation of economically-beneficial energy efficiency measures. The IEA also says that introducing these measures could boost economic growth globally by a staggering 18 trillion dollars¹², making demand-side energy efficiency measures the one area that should become an investment priority for the EIB and the EBRD. Renewable energy and energy efficiency technologies are those where innovation and price reductions happen fastest and thus

economies should favour these industries by supporting them with public money, rather than capital-intensive, large-scale fossil fuel generation technologies of the past.

9. **Economic recovery potential of renewable energy and energy saving.** Renewables and energy efficiency also tend to be more labour-intensive than fossil fuels, so the shift to a clean energy model will have a positive impact on employment, with measures such as energy efficiency retrofits offering a way to create jobs in Europe. Construction jobs for wind power, solar projects or better insulation can be distributed so as to provide jobs when and where they are most needed. There are jobs for both highly-qualified and less-qualified workers who now have a hard time finding work.
10. **Renewables have proven their potential and are poised to handle the energy transformation** In 2012 wind power produced more than 200 and solar power almost 70 TWh in Europe. Efficiency is by far the cheapest way to help meet demand, and it is happening now.

Footnotes

1. Shareholder structure of the EIB http://www.eib.org/img/eib_capital_2009_en_300.jpg
2. Shareholder structure of the EBRD: <http://www.ebrd.com/pages/about/who/shareholders.shtml>
3. The period 2007-2011 is discussed here because this is when what is considered the current energy policy of the EIB – the document “Clean energy for Europe: a reinforced EIB contribution”, adopted by the EIB Board of Governors in 2007 – was in place.
4. New renewables – renewable energy sources, excluding large hydropower that has been in use for over a century, and traditional wood combustion. Newer, more efficient forms of biomass combustion are included.
5. Full cost accounting for the life cycle of coal , N.Y Accademy of Science ISSN0077-8923
6. <http://cleantechnica.com/2013/01/24/renewable-energy-revolution-declining-costs-surgng-capacity/>
7. 2010, EC proposal for Council Regulation on State aid to facilitate the closure of uncompetitive coal mines, 2010. In 2008 Poland, Slovenia and Slovakia gave investment aid, while Germany, Hungary, Romania and Spain maintained schemes of operating aid for coal mining.
8. 2007, IEEP and consortium, “Reforming environmentally harmful subsidies,” A report to the European Commission’s DG Environment. “It is widely recognised that, with respect to coal, market conditions are unlikely to change in the decades ahead, and there is no ‘insecurity of supply’ regarding coal in the EU, nor are there likely to be any future interruptions of supply. Thus, granting financial support to domestic coal production on the basis of maintaining security of supply, or hedging against future insecurity, is not warranted, and is arguably a form of hidden protectionism.”
9. 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 removing environmentally harmful policies that might thwart green growth, such as subsidies: to fossil fuel consumption or production that increase greenhouse gas emissions; that promote the unsustainable use of other scarce natural resources; or which contribute to negative environmental outcomes.”
10. European Parliament resolution on trade and climate change, 29 November 2007, paragraphs 29: Calls for the discontinuation of public support, via export credit agencies and public investment banks, for fossil fuel projects and for the redoubling of efforts to increase the transfer of renewable energy and energy efficient technologies. See: <http://www.europarl.europa.eu/sides/getDoc.do?Type=TA&Reference=P6-TA-2007-0576&language=EN>
11. http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/stern_review_report.cfm
12. <http://www.iea.org/publications/freepublications/publication/English.pdf>