CEE Bankwatch Network comments to the EIB draft document *"EIB and Energy: Delivering Growth, Security and Sustainability. EIB's Screening and Assessment Criteria for Energy Project*

The draft of the new EIB policy does refer to EU energy policy developments including the Energy Roadmap 2050 and the European Commission's recent Green Paper "A 2030 framework for climate and energy policies". However the EIB draft new policy misses opportunities to became driving force for implementation of the current EU energy and climate policies and what is more includes significant loopholes which would undermine their aims. Although it seems to be obvious that that Bank needs to close its door immediately to certain fossil fuel projects like any kind of electricity production from coal, the bank policy misses the point to exclude coal financing politically and rather makes virtually all forms of energy eligible for the EIB financing, from new forms of renewable energy generation to coal, with the bank explicitly opening the door for risky investments in nuclear energy and shale gas. The bank policy does not refer to the call of the European Council of 22 May 2013 to phase out environmentally or economically harmful subsidies, including for fossil fuels.

EIB new policy continues conflicting EU energy objectives instead of promoting "no regret options".

The EIB should only support projects fulfilling the objectives of all three pillars of the EU energy policy: sustainability, including climate change, security of supply and competitiveness.

Such opinion was also expressed by the European Commission in its statement on priorities for the EIB energy policy. The Commission (on behalf of which the opinion was issued by Commissioner Oettinger, EN E-003404/2013) emphasized that it cooperate with the EIB to ensure that the future lending policy reflects the EU energy policy priorities which have been identified inter alia in the Europe 2020 Strategy, the Energy Infrastructure Package, the Energy 2050 Roadmap - in particular the "no regrets" solutions (infrastructure, efficiency as well as renewables, phasing out of harmful fossil fuels subsidies) - and the recently adopted Green Paper on a framework 2030 for climate and energy policies.

In this context, for the purpose of multiplying benefits for the EU as a whole, the EIB should more strongly priorities projects meeting requirements of all three pillars of the EU energy policy, such as projects in energy efficiency, renewable energy sources and smart grids infrastructure.

Instead of clearly phasing out of fossil fuel lending and prioritise „no regrets" solutions, the bank may continue to finance coal projects and explicitly opens the door for risky investments in nuclear energy and shale gas. This should be rectified before the adoption of the policy.

Lending to fossil fuels based power generation

The draft policy does tighten lending conditions for all types of fossil fuel projects including coal by:

a. Introducing an Emission Performance Standard at plant level for all fossil fuel plants financed by the bank, standing at 550 gCO_2/kWh

b. Including in assessments of projects a carbon price calculation that would take into account other air pollutants (NO_x, SO_2)

Moreover all projects, not just the ones in EU, must comply with the requirements of the EU's Industrial Emissions Directive, Large Combustion Plant Directive, ETS directive and CCS Directive.

This criteria would apply to both greenfield projects and plant refurbishment.

However the policy allows for certain **exemptions from the criteria on Emission Performance Standard** in cases where the project would contribute to system security of supply (for example in island/isolated systems and peaking plants) if there is no economically viable alternative, or in the context of operations outside the EU where the project makes a substantial contribution to poverty alleviation and economic development.

CEE Bankwatch Network is concerned that the above criteria are not sufficient enough to align the EIB lending with the goal of 100% renewable based energy sector in 2050 and keeping the 2°C climate limit, especially since the exemptions are not well defined and thus open the door for almost any fossil fuel electricity generation project to be financed by the bank.

Introduced Emission Performance Standards (EPS) at a level of 550 gCO2/kWh is not ambitious enough. In August 2012, Canada introduced an EPS level of 420gCO2/kWh. In a recent proposal of the Obama administration, the Environmental Protection Agency (EPA) is set to introduce a performance standard of 440 CO2/kWh, at the same level as standards in place in the UK.

The EIB should establish the EPS at the level of 350 gCO2/kWh which would allow only Best Available Techniques to be supported by the EIB. The EIB should only finance BAT in its projects in order to demonstrate high level of additionally (economic, financial and environmental sustainability). Not- BAT technologies should no longer be supported by this EU public financial institution.

The EIB's draft policy includes significant loopholes which would allow financing climate detrimental projects which do not meet the Emission Performance Standard (related to Co2 emissions) criteria. The exemptions from the criteria for fossil fuels projects are far too vague and were left undefined.

The argument of "security of supply" was previously used by the bank to finance coal power plants in Germany, Poland and the Sostanji Power Plant in Slovenia with significant negative impact on the climate but also on health and economy. Thus the bank should clearly define specific emergency or extraordinary situations (eg. post-war or natural disaster energy supply) in which "security of supply" exemption from the EPS could be granted. Otherwise the bank should not allow for any exemption - in particular any project that is designed to address long term energy supply should be fully in line with the EPS.

All the projects that EIB finance outside of the EU must in principle contribute to poverty alleviation and economic development as stipulated in the specific mandates given to the Bank so theoretically any fossil fuel based project which does not meet EPS criteria would be eligible for the EIB financing.

Thus the exemption from the EPS for projects located outside of the EU should be laid out very clearly, for example the project which does not meet the EPS criteria can only be financed if it in a short and medium term provide affordable electricity to an increasing part of population especially the poorest part, it does not cause the hike of the electricity price and it directly alleviate poverty while there is no other alternative. The EIB should develop, together with the EC, the methodology to assess if the exemption can be granted and should further monitor the project implementation and report on its effects and impacts.

EIB opens the door for lending to fossil fuels extraction

Since 2007, under the current EIB energy policy, the bank has financed only one fossil fuels extraction project. This is very concerning that the bank's policy stipulates it should me more involved in such operations which do not need the public support.

EIB draft energy policy stipulates that the bank will be involved in the fossil fuel extraction. In particular unconventional hydrocarbon production is claimed to be in line with the Bank's priority lending objective for security and diversification of energy supply. Outside the EU priority would be given to projects that aim to supply gas to the EU, support significant local economic development and poverty alleviation or generate climate action or other environmental benefits.

Taking into account that conventional fossil fuels extraction is a mature technology, highly profitable the EIB should not be involved in such operations at all in line with the call of the European Council of 22 May 2013 to phase out environmentally or economically harmful subsidies, including for fossil fuels.

The EIB policy approach to unconventional fossil fuels, particularly shale gas, is far too little cautious. This is recognized that existing regulatory framework is not adequate for regulating shale gas activities (for example injection of fracking fluids or wastewater treatment requirements, the lack of the Best Available Techniques). The screening criteria for the shale gas extraction (and generally fossil fuels exptraction) do not mention the climate impact and they do not assume application in the assessment of the extraction projects a carbon price and other air pollutants. These loopholes in the existing legal framework and proposed screening criteria should form a basis for the exclusion of the exploration operations from the EIB's energy policy.

EIB lending to nuclear power generation

This is very disappointing that the bank, although it takes a cautious approach to the sector, does not take into account the conclusions of the European Council of 22 May 2013 to phase out environmentally or economically harmful subsidies in energy sector and adopt a ban on future loans to nuclear power which is heavily subsidies in Europe.

Nuclear energy is intrinsically unsafe and poses serious environmental and social risks. The only acceptable investments for the EIB could go into the decommissioning of nuclear facilities for those countries or companies that have decided to abandon the use of nuclear power

EIB's renewable energy selection criteria were weakened for large hydropower projects!

The EIB's draft energy policy allowed for the large hydro power stations to be financed by the bank although such projects are connected with the significant negative environmental, social and climate impacts especially in developing countries while their contribution to development is very questionable. In previous policy the bank limited its operations outside of the EU to small and medium hydro only. The safeguards proposed in the policy such as reference to its environmental and social standards, especially on involuntary resettlement and impacts on indigenous peoples and other vulnerable groups as well as well as having an independent panels of experts reviewing projects do not guarantee that large dams will have any positive anti-poverty and climate implications and environmental and social problems are addressed properly.

On the contrary large dams are the wrong response to these pressing problems for the following reasons: 1) healthy rivers are critical for helping people adapt to a changing climate that will have bigger impact on developing countries 2) Dam reservoirs emit greenhouse gases 3) River flows are increasingly unpredictable and increase the risk of dam failures and catastrophic flood releases

The current environmental and social policy does not provide sufficient guarantee that the development objectives of the Union are translated in the EIB practices. The Complaint Mechanism investigation's conclusions on Bujagali hydro power plant show the project did little to provide affordable electricity to an increasing part of Uganda's population and to alleviate rural poverty and the EIB's assessment and monitoring was not appropriate[1].

The EIB should not finance large hydro projects at all and for all other hydro projects it should apply the following selection and assessment criteria:

The hydropower project:

1. Must be part of a regional energy strategy that is subject to a Strategic Environmental Assessment Procedure;
2. Must be in line with River Basin Plans and protected area management plans;
3. Must be subject to particularly rigorous public participation procedures in which local communities are pro-actively consulted (not only informed) and their views properly taken into account;

---

[1] *„...it is fully recognised that, being grid-connected, the Bujagali Hydroelectric project does little in the short/medium term to provide affordable electricity to an increasing part of Uganda's population and to alleviate rural poverty. (...)In such a project, the affordability is not the major driver. However, the review of affordability of electricity shows that the Bujagali Hydroelectric project will probably exert downward pressure on tariffs".*

and

"In some cases the negative environmental and social impacts found on the ground have not been adequately mitigated which suggests that these impacts and related mitigation measures may have not been fully assessed ex-ante, although they were correctly identified at appraisal time. Indeed, local complexities - relating to the land expropriation and compensation processes, to the implementation of the Resettlement Action plan, to the implementation of the Kalagala offset and to the spiritual/cultural issues -seem to have been under-estimated.

In addition, the monitoring and follow-up of the above and any further consequential concerns related to the implementation of the project, such as the blasting effects and the spiritual matters, seem not to have taken sufficiently seriously the concerns expressed by the project affected people."

4. Must not take place on a river with high ecological and landscape value;
5. Do not involve construction of any dam that affect water flow regime and wildlife circulation;
6. Do not involve any physical and large scale economic resettlement that will have significant negative impact on livelihoods of local population.
7. Must be directly monitored by the EIB