



## Comments on “A renewed policy for EIB lending to the transport sector”

### I. General remarks

We would firstly like to welcome the publication of the EIB's revised transport policy as an important step towards increasing the transparency of the EIB's lending activities in the transport sector.

However, we consider that the Bank should have presented the *draft* renewed policy for consultation rather than a document that had passed Board approval. The EIB's transport investments are almost 1/3 of its overall portfolio and the Bank is the single biggest investor in the sector in Europe. The new TEN-T financial instruments managed by the Bank as loan guarantees and participation in risk capital funds further increase the EIB's role and leverage in the sector. Therefore the EIB transport lending policy is of high public interest. We appeal to the Bank to establish a clear and transparent consultation process (see also section 1 of the detailed comments, below).

We also welcome the fact that the EIB's main stated aim of the transport lending review is the need to take into account the climate change impact of the sector. The EU's 2007 commitment to reduce greenhouse gas (GHG) emissions by 20-30 per cent by 2020 has underlined the need not only to avoid increases in GHG emissions, but to significantly decrease them. **However we must underline that the EIB policy response does not ensure that the EIB no longer finances projects with high climate impacts or that the climate impact of the Bank transport portfolio will improve.** The background information in the policy is misinformed, unrealistic and naive on likely future climate impacts, especially of aviation and road transport. The EIB needs to develop criteria – tighter than legislation – for excluding projects on climate impact grounds and needs to set year-on-year limits and targets for reductions in the greenhouse gas emissions of its projects.

Our particular concern is that the new policy does not make any commitment to reduce support for roads and aviation, which accounted for more than half of the bank's transport investments in the period 1996-2005. Making investments into energy-intensive modes of transport now is likely to prove poor value for money as the price of oil products is expected to continue rising significantly. At the same time sustainable transport modes should be given a fair chance for development as the current subsidies for road and air transport in the form of tax exemptions, free infrastructure use and non-payment of external costs, inflate transport demand and put the sustainable transport modes in a highly uncompetitive position. Therefore we call on the EIB to stop financing the air transport sector, particularly airport expansion, and to halve its support for the road sector by 2010.

In the light of the forthcoming review of the TEN-T Network (by 2010) we suggest that the Bank also reviews its support for the Network. The TEN-T's impact on climate change and also alternatives to capital-intensive infrastructure investments have never been considered so far. The Bank's support should therefore be conditioned by a thorough assessment of the climate impact

and alternatives in terms of different modes and demand management solutions. The Bank should also take also stronger account of the economic viability of climate intensive projects.

Finally, we call on the EIB to state in the policy's guiding principles and criteria that loan approval is subject to the project's compliance with the SEA, EIA, "Habitats", "Birds" and Water Framework Directives. The bank's practice of approving projects before the conclusion of the procedural and legal steps outlined in the environmental protection Directives contradicts the EU's principles for the allocation of EU funds.

## II. Detailed comments on the EIB Transport Lending Policy.

### 1) Consultation process

We welcome the EIB's invitation for comments on the policy, however **we are concerned that the proposed informal consultation process will be neither transparent nor clear**. The new transport strategy states that the EIB '*will welcome comments, that the new policy environment will be dynamic*' and that '*the policies presented will be subject to periodic review*', however it is not clear whether, when and how these comments will be taken into account, nor how often the reviews will take place.

***We therefore request the EIB to:***

- 1) Consider a renewed policy for EIB lending in the transport sector as initial draft subject of public consultation***
- 2) Set up clear consultation process on the policy review in line with the spirit and letter of the Aarhus Convention on Access to information, public participation and access to justice translated into the Regulation (EC) No 1367/2006***
- 3) State how often reviews of the policy will take place***

### 2) Policy framework

We are concerned that the EIB transport policy does not mention the aims of the renewed **EU Sustainable Development Strategy (SDS)** of 9<sup>th</sup> June 2006, which explicitly lays out the need for:

- Decoupling economic growth and the demand for transport with the aim of reducing environmental impacts.
- Achieving sustainable levels of transport energy use and reducing transport greenhouse gas emissions.
- Achieving a balanced shift towards environment friendly transport modes to bring about a sustainable transport and mobility system.

As a policy framework for its lending the Bank should also consider the 6th Environmental Action Plan (6th EAP)'s call for "Structural changes in the transport sector to address transport demand".

Considering the significant impact of transport projects on biodiversity protection and air pollution the EIB should also integrate EU policy objectives on biodiversity loss and health protection into its own lending policies.

For example on p.1 and p.7 of the Lending Policy the EIB lists the EU policy areas which set the context for its lending, however no information is given on how the bank will deal with projects which adhere to one policy but contradict another. For example if an airport or motorway has been



designated as a TEN-T project but is predicted to have a negative climate impact, which policy would take precedence?

***The EIB's new guiding principles need to explicitly endorse the EU policy objectives on reducing transport growth, biodiversity loss and health protection raised in the EU Sustainable Development Strategy and 6<sup>th</sup> Action Plan. The selection criteria should not allow financing of projects that contradict or do not contribute to the above policy objectives.***

### 3) Taking into account global warming concerns

We consider that the new guiding principles and selection criteria are too general to be able to **ensure that the EIB no longer finance projects with high climate impacts and to ensure that the climate impact of the bank's transport portfolio will improve.**

It is necessary to reiterate that CEE Bankwatch Network's report on EIB transport investments in the period 1996-2005 "Lost in transportation: The European Investment Bank's bias towards air and road transport"<sup>1</sup> estimated that the passenger flights resulting from a selection of EIB financed airport expansion projects are likely to result in extra annual CO<sub>2</sub> emissions greater than those of the three dirtiest coal power stations in Europe. The EIB's renewed transport lending policy considers only calculation of the climate-related costs in the economic appraisal rather than actively committing not to finance projects with a significant climate impact. **We consider that the Bank should develop criteria for refusing to finance projects on the basis of their contribution to climate change.**

Therefore we welcome the EIB's intention to develop methodologies<sup>2</sup> to meaningfully examine the greenhouse gas emissions from its projects, however ***we ask the bank to include the following clarifications in its transport policy:***

- ***By when does the EIB expect to have developed these methodologies?***
- ***Will the methodology include induced emissions, for example from the aircraft using an airport, or for the oil being transported through an oil pipeline?***
- ***How will the EIB use the results of climate impact calculations in its project appraisal process? What criteria will be used to decide whether a project's emissions are unacceptably high for a project to be financed?***
- ***In the meantime, while the methodologies are being developed, how will the EIB ensure that a precautionary approach is taken so that projects with a high climate impact are not financed?***
- ***Will the EIB assess the overall climate impact of its transport portfolio and commit to year-on-year reductions of its transport projects' climate impact?***

### 4) Limiting transport growth

We see fundamental mistakes in the EIB's approach towards limiting the growth of the carbon-intensive modes of transport<sup>3</sup>.

<sup>1</sup> <http://www.bankwatch.org/publications/document.shtml?x=1994828>

<sup>2</sup> p.2 The Bank will also seek to develop, inter alia, methodologies to examine in a meaningful way the greenhouse gas emissions from the projects it finances.

<sup>3</sup> p. 7, EIB renewed Transport lending Policy – reference to abandoning decoupling objective economic growth and transport growth

Reducing transport demand and limiting the growth of road and air transport is a clear EU policy objective as mentioned above in relation to the EU SDS and 6th EAP<sup>4</sup>. The Mid-Term Review of the 2001 Transport White Paper has indeed weakened the White Paper's commitment to modal shift, changing the focus from managing transport demand to addressing negative side effect of the transport sector: *"However as the extent of the important environmental impacts such as climate change, noise and landscape fragmentation are closely linked to transport volumes addressing them still requires the management of transport demands. The overall success of the new policy (the mid term review of the White paper) therefore still hinges on limiting (growth in) transport volumes."*<sup>5</sup>

We also reject the Bank's policy assumption that support for road transport infrastructure is justified by the idea that roads built now will also be used by the "zero-emission car of 2030"<sup>6</sup>. Vehicles are (slowly) becoming cleaner due to EU regulation and it will take a long time for the cleaner vehicles to filter into the fleet. To have any zero-emission cars on the road in 2030, it would require such technology to be at a very advanced stage of R&D and testing at the moment. **The EIB policy should address the fact that road transport on the whole is increasing, along with its environmental impact.** The EEA 2007 TERM report also states that greenhouse gases from the transport sector are steadily increasing and *"the improvement of the energy efficiency of the different means of transport and the introduction of renewable fuels are not sufficient to offset the growth of transport volumes. This tendency threatens both EU and individual Member States' progress towards Kyoto targets. Therefore, additionally policy initiatives and instruments are needed."*<sup>7</sup> The EIB cannot afford to abandon objectives, which involve tackling the dangerous demand increase trends.

Additionally regarding the first guiding principle<sup>8</sup> we think that to a great extent mobility is indeed essential, however it is increasingly recognised that there are limits, both spatial and environmental, to mobility, and that demand can never be fully satisfied by provision of new infrastructure in more congested areas. Transport demand is also inflated due to the lack of internalization of the direct and external costs of the transport modes, especially of road and air transport. It has long been recognised, for example by the 1994 UK government SACTRA report, that the provision of new infrastructure often leads to induced traffic, an issue which is particularly acute in the road sector. With this in mind, both the 2001 White Paper on Transport and the 6<sup>th</sup> Environmental Action Plan called for measures to limit transport demand, rather than solely concentrating on the Sisyphean task of trying to satisfy it.

***We therefore call on the EIB to acknowledge the importance of soft measures to reduce transport demand and state how it will actively seek to finance projects which reduce transport demand, such as pedestrian and cycling facilities, local food schemes and pedestrian-based urban developments.***

## 5) Support for energy intensive modes of transport

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<sup>4</sup> "Structural changes in the transport sector to address transport demand, promote a shift to railways, waterways and public transport and improve transport efficiency are of primordial importance in this context." (EC Communication on the Sixth Environmental Action plan, Section 3.3)

<sup>5</sup> p.8, EEA TERM report 2007 "Transport and Environment: on the way to the new transport policy"

<sup>6</sup> p.14, EIB renewed Transport lending Policy

<sup>7</sup> p.4, EEA TERM report 2007 "Transport and Environment: on the way to the new transport policy"

<sup>8</sup> p.2 "Mobility is essential for the free movement of people and economic growth. In this context, the EIB will pursue an approach that strives for the most efficient, most economic and most sustainable way of satisfying transport demand."

The renewed Transport Lending Policy states on p.2 *“The challenge for EIB support to the transport sector will therefore not be to discard one or the other type of intervention, one or the other transport mode, but rather to seek to optimise the strategy for action and to strive for an appropriate mix of interventions to serve the complex set of policy objectives”*. While the 2006 Mid-term Review of the 2001 Transport White Paper does indeed not rule out the use of any particular mode of transport, this is an entirely different matter than stating that all modes should be supported with public financing in the form of low-interest EIB loans.

### **5.1) Taking account of the external costs of transport modes**

Because most transport modes fail to fully cover their external costs and due to the low price of the petrol, users currently pay a much lower price for their mobility than the real cost to society and the environment, keeping demand artificially high. The EEA statistics show that more goods are transported farther and more frequently. Therefore tendency is towards production and consumption patterns that are increasingly petrol-dependent and vulnerable to increases in the price of energy sources. A decrease of energy use in the transport sector would therefore have not only climate benefits, but would also improve European products' competitiveness.

According to the EEA report on the “Size, structure and distribution of the transport subsidies in Europe” (2007) the road sector receives the largest amount of the share of annual subsidies – namely 125 billions annually - mostly in the form of infrastructure subsidies. Aviation also benefits from 27 to 35 billion euros of subsidies, mainly in the form of tax exemptions.

It is likely that confronting users with these costs by imposing charges on infrastructure could ensure more efficient usage of transport, while addressing some of its negative consequences and, at the same time, raising funds for investing in new or optimised infrastructure and alternative transport modes.

The equal treatment by the EIB's lending policy of the different transport modes means support for the unfair competition system of the transport modes and damage to the future competitiveness of EU products and the economy in general.

***The EIB needs to take account of the existing imbalances in transport financing and payment of external costs of the different modes and use its limited funds to support those modes with lower external costs, rather than road and aviation which already receive large subsidies in the form of unpaid external costs (road) and fuel tax and VAT exemption (aviation). Additionally regarding p.3 “As with all other EIB projects and in line with the proposals adopted in the ‘Clean Energy for Europe’ document, the Bank will seek to identify more fully the consequences of the projects it funds in terms of energy consumption.” We fully agree with this aim but call on the EIB to express more clearly in its transport policy how such calculations will be done (e.g. will they also include induced traffic calculations?) and how and at what state of project appraisal they will be taken into account. The Bank must also clearly state under what circumstances a project would be excluded from financing because of its GHG impact.***

### **5.2) Investments in air and road transport growth**

The EIB policy states<sup>9</sup> that airport expansion or air traffic control (ATC) improvements will drive a reduction in the environmental impacts of air transport and reduced congestion. This is likely to be

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<sup>9</sup> p.13, EIB Transport lending policy, 3.1.2 Airports section



the case, but only in the short run. The environmental problems of air transport and congestion are, to a great extent, the result of an inefficient functioning of the markets (namely the lack of internalization of the external costs of environmental pressures and congestion). It is well known, particularly from experience with road expansion, that addressing congestion or environmental impacts by infrastructure expansion only, without correcting the market failures that cause the problems tends to alleviate these problems in the short term but aggravate them in the long run (1).

For example, by improving ATC one might reduce en-route NOx emissions from aviation in the short run. However, with an increased transport capacity and lower operational costs (including travel time, which also decreases fixed equipment costs for airlines) consumer prices are likely to be reduced. Because these prices do not internalize the costs for society of NOx emissions, the level of activity (and emissions) is going to be higher than the efficient level from a societal viewpoint. The net result is that the reduction on emissions in the short run will result in a higher level of emissions in the long run, aggravating the environmental problem. Given this, any infrastructure expansion or optimization of ATC will only have positive environmental effects if accompanied by other policy instruments, namely economic instruments to internalize all external costs in prices.

The second paragraph from section 3.1.2 on Airports addresses the issue of technological developments in the long run that are claimed to alleviate environmental pressures from air transport. This is wishful thinking. All scenarios of air transport growth and efficiency improvements show that the former is higher than the latter and so air transport is increasing its environmental impacts. This is one of the reasons why aviation is the fastest growing source of CO2 emissions. A change in this pattern is not to be expected, since there are currently no real alternatives to the use of fossil fuels on aviation. Intermediate solutions such as biofuels are still far from being implemented and their overall sustainability is, at best, questionable.

For example in 2007 Airbus started to deliver the first models of the A380 aircraft. If these aircraft are to be profitable to the manufacturer they will be built more or less the same as today for several years (or even decades). Moreover, companies that buy a new A380 in 2008 or 2009 will have to operate it for a few decades without major technological upgrading, if they want to recover the investment. Given this, it is completely unrealistic to think that in the next 2 to 5 decades a carbon free aircraft fleet will be in operation (maybe a part of the fleet if any breakthrough innovation occurs very quickly); actually the opposite is to be expected: in the foreseeable future growth in the industry will be higher than efficiency improvements and so absolute emissions from aviation will experience major growth.

The text argues that the inclusion of aviation in the EU ETS will 'internalize GHG costs of air transport in prices' and that in the long term GHG emissions from aviation will be lower. Again this is an excessively optimistic view of the impacts of including aviation in the EU ETS and is even in contradiction with the impact assessment performed by the European Commission. Firstly, the inclusion in the EU ETS will address, at best, half of the climatic impacts of aviation. The most recent scientific evidence shows that CO2 only accounts for a part of the climatic impacts of aviation, since when non-CO2 impacts are included the total effect is between 2 and 5 times higher than CO2 impacts alone. As there is as yet no policy instrument to address these non-CO2 impacts, they are not likely to disappear soon. Second, the Commission's impact assessment of the inclusion of aviation in the EU ETS, even in an 'optimistic' scenario only estimates cuts in aviation emissions of 3% compared to business as usual scenarios; this is comparable to only offsetting one year of aviation growth, so CO2 emissions from aviation, in absolute terms, will



continue to grow, even after including aviation in the EU ETS.

**Therefore we ask the EIB to:**

- **Halt investments into aviation.**
- **Increase investments in rail, urban public transport, and inter-modal transport - these must make up the vast majority of the EIB's transport investments in each country.**
- **Prioritise maintenance or safety improvements in EIB financing in the road sector. By 2010 the share of road transport investments in the EIB portfolio should be halved to make space for the development of sustainable transport modes.**

## **6) Integration of EU environmental protection objectives**

The second guiding principle of the Bank policy (p.2-3) is that *"The EIB will continue its strong commitment to the funding of TENs. The long-term nature of these investments and their essential role in achieving an efficient and cohesive Community-wide transport system continue to make them the backbone of transport investment in the EU and essential for the functioning of the internal market. The relationship between the stock of infrastructure capital and greenhouse gas emissions is complex but this does in itself not call into question this continued EU commitment to TENs."* While we would not expect the EIB to completely give up financing TEN-T projects, we believe that designation as a TEN-T project must not be a trump card that should take precedence over other considerations of climate and environmental impacts of the projects.

Article 12 of the Guidelines for the Development of TEN-T requires that all TEN-T projects including the priority ones are part of a programme that has been subject to SEA and that the projects comply with the EIA Directive requirements. The SEA and EIA processes are the only legislative guarantee so far that the greenhouse gas and project environmental impact together with the alternative solutions have been taken into account.

***Therefore support from the EIB, especially for TEN-T projects, must be conditional on the existence of a strategic environmental assessment (SEA) of the plans and programmes containing the projects. The EIB needs to be much more rigorous in its verification of project promoters' claims regarding environmental impacts and public participation processes. The EIB's frequent approval of TEN-T projects before the SEA and EIA process are finalized should be considered as taking a position in the process and interference with the procedure.***

According to the case studies report "Conflict areas between the TEN-T and nature conservation"<sup>10</sup> and new research being carried out by BirdLife international there are number of clashes between TEN-T priority projects and the NATURA 2000 Network.

***We therefore ask the EIB to clearly state in its selection criteria that support for the project depends on compliance with the requirements of the Birds and Habitats Directives when conflicts between TEN-T and the NATURA 2000 Network might occur.***

## **7) Support for transport industries**

Regarding the selection criteria p.3 *Automotive sector*, "EIB support to manufacturing in this sector should, however, be selective and limited to projects in convergence regions, where their

<sup>10</sup> [http://www.birdlife.org/action/change/europe/ten-t\\_case\\_studies.pdf](http://www.birdlife.org/action/change/europe/ten-t_case_studies.pdf)



contribution to employment and to innovation diffusion, including through their links with the local mid-cap and SME network is important.” Given the EU Treaty’s stipulation that the EIB should “finance projects of common interest to several Member States which are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States”, **the EIB should not finance car manufacture at all**. Car manufacturers rarely benefit several member states, and should be able to access commercial loans when needed rather than relying on public financing. As car transport is a significant source of greenhouse gases in the EU, and since the number of cars is growing much faster than the emissions per car are decreasing, leading to an overall growth in emissions, it cannot be assumed that the production of cars is an activity which merits public financing support.

On p.3 regarding support for the purchase of aeroplanes: “In view of the effectiveness of the private sector in this area, financing of aircraft purchase will be limited to exceptional circumstances when very strong value added can be demonstrated”. We agree that the private sector is able to finance aircraft purchase, however **the EIB needs to clarify what it means by ‘exceptional circumstances’ with ‘very strong value added’** as the examples given on page 16 are much more restrictive than those on page 3 and it is open to interpretation whether those on page 16 take precedence.

Sincerely yours,

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