

To: Jyrki Katainen, Vice President of the European Commission
Werner Hoyer, President of the European Investment Bank

15 December 2014

European Fund for Strategic Investments: for a focus on low carbon, energy and resource efficiency investments

Dear M. Katainen,
Dear M. Hoyer,

Our environmental NGOs take note of the Commission's proposal for an Investment Plan for Europe¹, including notably the creation of a European Fund for Strategic Investments (EFSI) aimed to mobilise at least €315 billion in additional public and private investments into the real economy between now and end 2017.

While we welcome some elements of the proposal such as its focus on the social market economy and related investments in clean energy, education, and social infrastructure, we are equally concerned by some aspects and would like to make the following five main recommendations (key issues are further detailed in the Annex to this letter):

1. **Prioritise quality over speed: Ensure transparency and consultation at each stage of the process (definition of guidelines, pipeline of projects, selection, implementation)**

- While we understand the need to speed-up the process of preparation, we believe that it would be highly counter-productive if a hasty process risks undermining the quality of screening. The recently published list of projects proposed by Member States shows that there is a risk that some Member States try to promote projects that are not in line with agreed EU priorities and could have negative social or environmental impact. Additionally we need to highlight that industry lobby groups had a disproportionately high participation in the Task Force in comparison with other stakeholders – an issue that should be addressed before decisions are taken during next stages of the process.
- Full transparency should be ensured for the project pipeline; all relevant information and analysis for each project should be publicly disclosed before project approval. The procedures for the EFSI should be also subject of public consultations – in the similar manner as the EIB sectoral policies and procedures are consulted. It should also be clarified what compliance mechanism will be used.
- Members of the Investment Committee should be coming from the EU institutions and the EIB and should not include any industry representative.
- In parallel to a genuine role for civil society, involving the European Parliament in the setting-up of the plan and projects' list will also be crucial in order to ensure full democratic oversight.

¹ COM(2014) 903 final

2. Ensure long term consistency

Avoid random project support: a key criteria to support long term infrastructure projects should be their full consistency with EU 2050 climate and biodiversity goals². National 'long term investment plans', as recommended by the Special Task Force³, could be appropriate for that purpose: for example they could use the concept of national carbon budget for selecting the most appropriate infrastructure projects.

3. Spend the money in sustainable projects

- The money should be spent in projects that contribute to the achievement of environmental objectives⁴ of the EU:
- As a top priority, the ESFI should focus on energy and resource efficiency investments (notably buildings refurbishments) – that are proven very cost effective while job intensive, improving EU energy and resource security and reducing EU vulnerability to external shocks (Annex points 1 and 2);
- We agree with the Special Task Force that investing in resource efficiency and eco-innovation (...) can contribute to Europe's well-being⁵.
- This should also include renewable energy generation, smart grids, electricity storage, railway transport and sustainable urban mobility, infrastructures for electric vehicles, green infrastructures, etc (Annex points 3 and 4).

4. Do not spend the money in projects locking the EU in carbon and resource intensive paths

- Money should not be spent in projects contradicting EU environmental targets, that may be stranded in 20 years, that aggravate the depletion of the European natural capital or that are not climate resilient:
- This primarily concerns any type of airport infrastructure⁶, new motorways and roads, any coal, oil and nuclear infrastructures. In the Project List⁷ many projects are focusing on these sectors, raising huge concerns on its long-term viability.
- The gas infrastructures should be very carefully analysed, and project should be supported only if they do not risk undermining the EU 2050 goal and the 2050 Climate Roadmap (see Annex point 5).

5. Strike a fair risk balance when employing financial instruments. Socialising risks and privatizing profits has been at the core of the crisis, and it is the paradigm at the heart of the EFSI: in order to attract private investors the EFSI will be used to 'de-risk' investments in projects that face difficulties to attract capital. De-risking does not mean that the risk disappears, but rather that it is passed on to public institutions and taxpayers. The effects for EU public institutions and taxpayers should be thoroughly analysed and integrated and project with potential negative impacts should be ruled out.

² 80-95% greenhouse gas emissions reduction by 2050 (compared to 1990 levels) and full restoration of EU biodiversity and ecosystem services (European Council of 25-26 March 2010)

³ Special Task Force (Member States, Commission, EIB) on investment in the EU (2014), *Final Task Force Report*.

⁴ Notably the climate change, energy efficiency, renewable energy targets and the Biodiversity Strategy targets

⁵ Special Task Force (Member States, Commission, EIB) on investment in the EU (2014), *Final Task Force Report*, p25

⁶ Including dedicated rail connections between important airports and urban centres that lead to *increased* greenhouse gas emissions by facilitating the use of aviation at the expense of lower carbon modes of transport

⁷ Special Task Force, *Annex - Project lists from Member States and the Commission*

We are pleased to read that “the Commission and the EIB will engage with stakeholders at all levels in early 2015”⁸ and expect a fruitful dialogue with you to make this first headline proposal of the Commission a success for the transition to a prosperous sustainable economy in Europe. On this basis, we hope that your agenda in January will offer the possibility to arrange a meeting.

Yours sincerely,

Angela Caserta, Regional Director - Birdlife Europe

Petr Hlobil, Director – CEE Bankwatch Network

Xavier Sol, Director - Counter Balance

Jeremy Wates, Secretary - General – European Environmental Bureau

Magda Stoczkiewicz, Director - Friends of the Earth Europe

Tony Long, Director - WWF European Policy Office

CC: Miguel Gil Tertre, Valerie Herzberg, Heidi Jern, Grzegorz Radziejewski, Members of Cabinet of Jyrki Katainen

Philippe de Fontaine Vive Curtaz, Jonathan Taylor, Mihai Tanasescu, Magdalena Álvarez Arza, Vice Presidents of the European Investment Bank

⁸ COM(2014) 903 final, p6

ANNEX

SPEND THE MONEY IN SUSTAINABLE PROJECTS

1. Priority: Investments in energy savings

Investment in energy savings should be prioritized as they are able to leverage significant amount of private money, create local jobs as well as deliver long-term tangible benefits to European citizens.

Energy efficiency investments deliver:

- Three to four times the number of jobs created by comparable energy supply investments, i.e. coal-fired and nuclear power plants;⁹
- Reduction of energy costs for industry and households;
- Reduction of gas imports by 2.6% for 1% of energy saved;¹⁰

Public investment in energy efficiency has a significant and **well proven capacity to leverage private money**. For example, each euro of public investment in energy efficiency can generate between €13-20 in private investment.¹¹

Deep renovations of existing buildings are one of the most labour intensive activities in which the money invested has a **very high employment effect**. For every million euro invested in deep renovations, up to 17 new jobs are created¹²; this could help the recovery of the construction sector, which was one of the worst hit by the economic crisis. In addition, investments in energy efficiency of buildings **would deliver benefits to a large portion of EU citizens** through reduction of fuel poverty as well as improved living conditions.

Furthermore, energy efficiency investment **can be deployed more quickly** than other types of investment particularly when directed to facilitate the implementation of already adopted EU legislation, which is still lagging behind in many sectors.

⁹ European Commission, *Doing More with Less, Green paper on energy efficiency*, (COM(2005) 265 final of 22 June 2005.

¹⁰ European Commission (2014), *Impact assessment accompanying energy efficiency communication*.

¹¹ Jülich Institute (2011), *Impact on public budgets of KfW promotional programmes in the field of energyefficient building and rehabilitation*.

¹² Ürge-Vorsatz, D. et al. (2010): *Employment Impacts of a Large-Scale Deep Building Energy Retrofit Programme in Hungary*.

2. Priority: Investments in resource savings

Resource costs make up a significant part of the cost structure of European business. These business also need available and predictable supplies. A Europe Innova study finds that **EU manufacturing firms spend on average 40% of their costs on raw materials (increasing), far more than labour costs (18-20%, decreasing) or energy costs.**¹³

Resource efficiency investments deliver:

- €270¹⁴ to 630¹⁵ billion per year of savings in material costs for the EU business according to different scenarios;
- 100,000-200,000 new jobs for every percentage point reduction in resource use.¹⁶ A 30% improvement of EU resource productivity by 2030 could create over 2 million jobs¹⁷;
- Over 400 000 jobs by 2020 by recycling 70% of key materials¹⁸.

“Resource-efficient Europe” is a flagship initiative of the Europe 2020 strategy¹⁹: on this basis the Commission published the 2011 **Roadmap to a Resource-Efficient Europe**.²⁰ In addition, in the 7th Environmental Action Programme²¹, Member States and the European Parliament²² agreed that the EU should establish indicators and set targets for resource efficiency, while a 30% resource productivity target by 2030 has been proposed by the Commission as part of its Circular Economy package.²³

Significant EFSI investments should match these policy developments on resource efficiency.

3. Renewable energy, grids and electricity storage

Renewable energy

The EU is committed to reducing greenhouse gas emissions to 80-95% below 1990 levels by 2050²⁴. **According to the European Commission’s 2050 Climate Roadmap²⁵, the most technologically and economically feasible means of achieving this is an almost-total decarbonisation of the energy sector by 2050²⁶.** This needs to be taken into account in addition to the 2020 and 2030 renewable energy targets.

In addition, in the wake of disruption of the financial system 2007 banking collapse and the wider economic problems in the Eurozone, there has been a rolling back in the availability of affordable and long-term bank debt for renewables. This reflects the commercial banks’ collective response

¹³ Europe INNOVA (2012), *Guide to resource efficiency in manufacturing: Experiences from improving resource efficiency in manufacturing companies*.

¹⁴ Research by McKinsey & Co published in Ellen MacArthur Foundation (2012), *Towards the circular economy*.

¹⁵ Europe INNOVA (2012), *Guide to resource efficiency in manufacturing: Experiences from improving resource efficiency in manufacturing companies*.

¹⁶ Cambridge Econometrics et al. (2014), *Modelling the Economic and Environmental Impacts of Change in Raw Material Consumption*.

¹⁷ GWS mbH (2001), *Macroeconomic modelling of sustainable development and the links between the economy and the environment*.

¹⁸ Friends of the Earth (2010), *More jobs, less waste – potential for job creation through higher rates of recycling in the UK and EU*.

¹⁹ European Commission (2010), *Europe 2020 – A strategy for smart, sustainable and inclusive growth*, COM(2010) 2020.

²⁰ European Commission (2013), *Roadmap to a Resource Efficient Europe*, COM(2011) 571 final.

²¹ Decision No 1386/2013/EU of 20 November 2013 on a General Union Environment Action Programme to 2020, *Living well, within the limits of our planet*.

²² The European Parliament also issued the resolution of 24 May 2012 *A resource-efficient Europe* (2011/2068(INI)) asking for targets and indicators.

²³ European Commission (2014), *Towards a circular economy: A zero waste programme for Europe*, COM(2014) 398 final.

²⁴ European Council, October 2009

²⁵ European Commission (2011), *A Roadmap for moving to a competitive low carbon economy in 2050*

²⁶ European Commission (2011), *A Roadmap for moving to a competitive low carbon economy in 2050*, COM(2011) 112 final.

to Basel III regulation, which requires a deleveraging, but also increases concerns about the stability of political support for low carbon investments and renewables especially.

There is therefore a strong case for the EFSI to support renewable energy projects, which are finding it increasingly difficult to secure affordable loans despite the fact that they build on solid long-term fundamentals.

Smart grids

Large electricity network investment is foreseen across Europe in coming years. Electricity transmission system operators (TSOs) are currently planning to increase their rate of investment by 70% by 2020²⁷. 'Smart grid' investments at the distribution level are particularly important for enabling decentralised generation. 'Offshore grids' are also needed both to connect offshore wind farms to shore and to help to manage variability through interconnecting power markets around the North and Baltic Seas region.

The deployment of smart grids could save €52 billion per year in the EU by reducing losses from electricity distribution and enabling greater energy efficiency.²⁸

The Commission's Impact Assessment on Energy infrastructure priorities for 2020 and beyond²⁹ estimates the needs of a huge €142 bn investment by 2020 for transmission, offshore grid and smart grid infrastructures - of which €45 bn (32% only) is estimated to be business as usual delivery while €90 bn (63%) is commercially viable. There is therefore a clear case for the EFSI to significantly support electricity infrastructure projects.

Electricity storage

Electricity storage is increasingly important to balance the growing renewable output. Financial support should concentrate on near-commercialised projects, which have significant short to medium term potential to alter energy infrastructure investments and achieve policy objectives.

4. Green infrastructures

Business as usual 'grey' infrastructures are not only usually quite costly, they are also often damaging and fragmenting ecosystems and are increasingly unadapted to climate change impacts. Climate change is already happening in Europe: EU damage from flooding is skyrocketing and reached at least €150 billion over the period 2002-2010³⁰. It is well documented that extreme weather events in the EU will aggravate both in number and in scale.

The underlying principle of green infrastructures is that they can offer multiple benefits if the ecosystems they depend on are in a healthy state. They are generally characterized by a high level of return over time and can be a cost-effective alternative to 'grey' infrastructure and intensive land use change, because healthy ecosystems largely self-maintain for free instead of requiring expensive investments and maintenance costs.

²⁷ Roland Berger 2010.

²⁸ Oracle (2011), *The Future of Energy – an independent report for Oracle Utilities*.

²⁹ SEC(2010) 1395 final

³⁰ RPA and al. (2014), *Study on economic and social benefits of environmental protection and resource efficiency*

Green infrastructure more efficient than technical solutions (Ireland)

In Anne Valley, an integrated wetland was constructed instead of installing a traditional water treatment plant. Not only is the wetland more efficient in clearing mostly livestock wastewater than a traditional plant, it also offers multiple benefits like flood control and climate regulation. Capital costs were €715,000 for the project - less than half the estimated cost of an equivalent traditional plant (€1,530,000). Annual maintenance costs are also lower. In addition €220,000 was spent on new tourism facilities which are creating additional economic value, impossible with a traditional plant.

Green infrastructures can lessen the impact of climate induced disasters, protect coastal cities vulnerable to climate change, achieve carbon savings at low cost, provide valuable ecosystem services – and create jobs³¹. Notably, floodplain restoration, peatland and wetland restoration have the potential to create large scale flagship projects. Floodplain wetlands secure drinking water supplies by replenishing groundwater, purify surface waters, offer cost effective climate change adaptation solutions and create sustainable tourism opportunities.

In the European Commission, DG Regio and DG Environment have developed valuable expertise on green infrastructures³² and should be closely involved in the investment advisory “hub” to help building capacity on the potential shift from grey to more valuable green infrastructures everywhere possible.

DO NOT SPEND THE MONEY IN PROJECTS LOCKING THE EU IN CARBON AND RESOURCE INTENSIVE PATHS

5. Risk of over-investments in gas infrastructures

The Ukraine-Russia crisis has focused the EU on energy security far more than before with a potential strengthened support for gas. In this context, it is critical to remind that:

- 1. All the European Commission 2050 Energy Roadmap scenarios³³ estimate that gas consumption in the EU will decline in absolute terms (see graph below³⁴);**
- 2. Eurostat data show that EU gas consumption has peaked in 2005-2010 and has been sharply decreasing since 2010 – confirming the consumption trend of the 2050 Energy Roadmap (see graph below).**

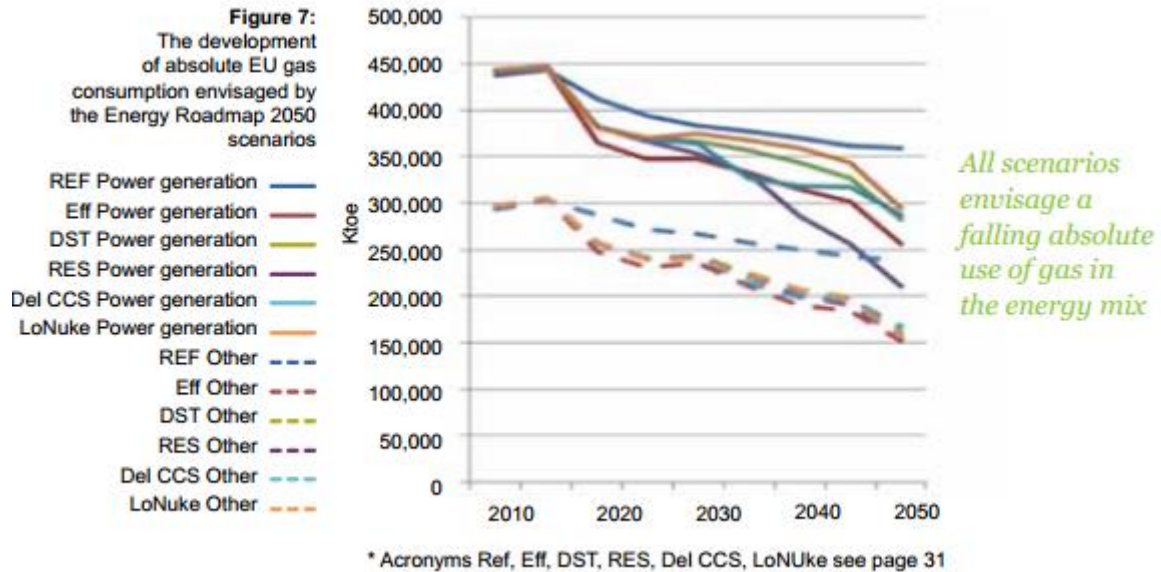
³¹ For more concrete examples see BirdLife, EEB, WWF (2012), *Biodiversity investments under Cohesion Policy – a smart contribution to reach EU 2020 objectives*

³² See for example DG REGIO (2013), *The Guide to Multi-Benefit Cohesion Policy Investments in Nature and Green Infrastructure*

³³ European Commission, *Energy Roadmap 2050*

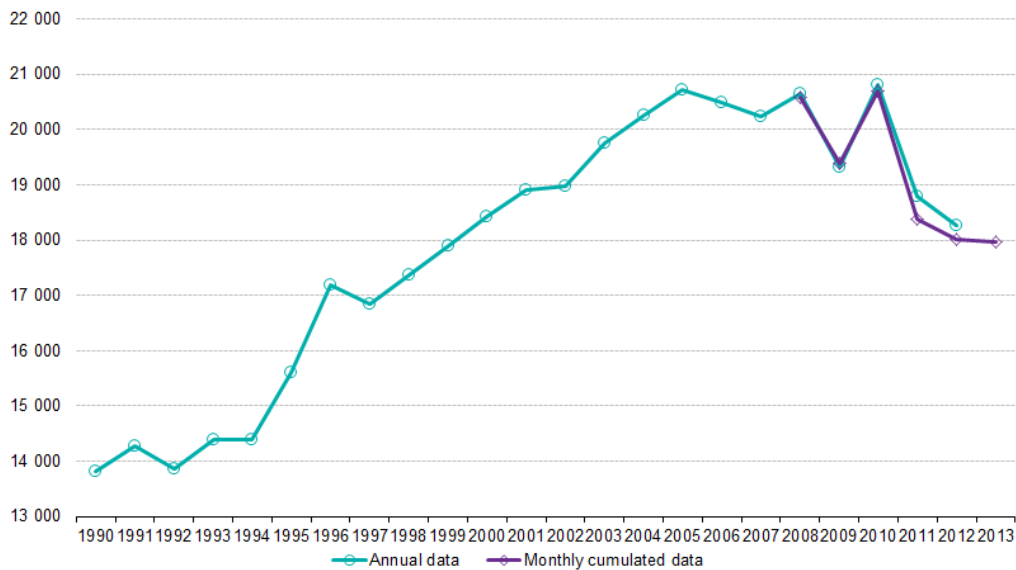
³⁴ WWF, *Cutting energy related emissions the right way*, 2012

2050 Energy Roadmap scenarios for EU gas consumption



Source: European Commission, Energy Roadmap 2050, graph designed by WWF

Gross inland consumption in EU-28 (in thousand terajoules)



Provisional data for 2013

(¹) Due to confidential data, Bulgaria is not included in the EU-28 aggregate for reference years 2011 and 2012.

Source data: nrg_103m, nrg_124m, nrg_134m

Source: Eurostat, Natural gas consumption statistics, May 2014

There is a huge pipeline of gas infrastructure projects in Europe – including upgrades to existing connections, new long-distance pipelines, intra-EU connections and domestic hubs for LNG. But the decreasing consumption of gas in the EU raises strong doubts on the actual need and the commercial viability of all of them. As an example, there is a huge number of LNG projects in Europe (up to a hundred) but the existing ones are already largely idle: according to Thierry Bros, senior gas and LNG analyst at Societe Generale, European LNG deliveries dropped by 24% in 2013, in addition to a 30% fall in 2012³⁵. Adding to the economic trouble is that many import terminals in continental Europe are under take-or-pay contracts that force them to accept LNG deliveries

³⁵ Reuters 20 September 2013, *Many European LNG terminals face idling, seek new activities*, <http://www.reuters.com/article/2013/09/20/energy-lng-europe-idUSL5N0HF3KD20130920>

even when demand is not there or pay stiff fines. **This is strongly questioning the economic rationale of any new LNG investment in Europe.** More generally a proliferation of new transmission pipelines, LNG terminals and intra-EU connections risk stranding assets and raising energy prices, since they are at risk of being over-built compared to requirements.

In addition the Commission's Impact Assessment on Energy infrastructure priorities for 2020 and beyond³⁶ estimates that gas infrastructures need €71 bn investment by 2020 (twice less than for electricity infrastructures) – of which €57 bn (80%) is estimated to be business as usual delivery, that does not need EFSI support. **The financial case for EFSI investment in gas infrastructure is thus far lower than for grid infrastructure** (see above Point 3).

The need for EFSI investments in gas infrastructures therefore needs to be scrutinised extremely carefully to avoid over-investment that would:

- Not be additional compared to business as usual delivery;
- Be sub-optimal economically;
- Lock-in future carbon emissions;
- Impede the development of low carbon energy efficiency and renewable alternatives.

Therefore, clear criteria are required to ensure that any potential EFSI investment in gas infrastructure is both fully justified on a long term economic perspective³⁷ and fully consistent with the 2050 EU climate goal.

For contact

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³⁶ SEC(2010) 1395 final

³⁷ Economic assessments should include the growing displacement of gas-fired electricity by renewable electricity in the next decades – reducing the need for baseload gas-fired electricity in favour of peaking production, that is more expensive per kWh produced