

Lost in Transportation

The European Investment Bank's bias towards road and air transport



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Researched and written by Pippa Gallop

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Contents

Preface.....	5
Executive summary.....	6
1. Introduction.....	8
2. Overview of transport in the European Union.....	10
2.1 The 2001 White Paper on transport	
2.1.1 Decoupling transport growth from GDP growth	
2.1.2 Internalising the external costs of transport	
2.1.3 Shifting the balance between modes of transport	
2.1.4 Controlling the growth of aviation	
3. Overview of the EIB's priorities.....	17
3.1 In theory...	
3.2 And reality...	
4. The EIB's neglect of the White Paper and 6 th Environmental Action Plan.....	23
4.1 Internalising the external costs of transport	
4.2 Decoupling transport growth from GDP growth	
4.3 Shifting the balance between modes of transport	
4.4 Controlling the growth of aviation	
5. EIB transport investments: impact on climate change.....	27
5.1 Air transport	
5.1.1 Airport expansion projects	
5.1.2 Airline expansion projects	
5.2 Road transport	
6. The EIB's corporate subsidies.....	35
6.1 Air transport	
6.1.1 Airport companies	
6.1.2 Airline companies	
6.1.3 Aircraft manufacturers	
6.2 Construction companies	
6.3 Car manufacturing	
6.4 PPP - public private partnerships	
7. Social and economic impacts of EIB transport investments.....	51
7.1 Transport infrastructure, economic growth and employment	
7.2 Labour standards	
7.3 Impact on air quality and health	
8. Environmental Impact Assessment (EIA), public participation and impact.....	55
on nature	
9. Conclusions and recommendations.....	58
Appendix 1: EU 15 Transport CO2 emissions and increases 1990-2004. in Gigagrams	



Preface

Founded in 1958 under the Treaty of Rome, the European Investment Bank is the house bank of the European Union, and as such is bound to contribute to the EU's objectives and to support its commitments.

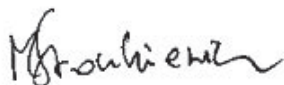
Yet, as this report details, the EIB's transport related operations follow the EU's transport policy selectively at best, and more often jeopardize than contribute to the achievement of specific Community commitments such as those on combating climate change or limiting the environmental impacts of the transport sector.

In more than ten years of our monitoring of the EIB, CEE Bankwatch Network has consistently pointed out that the EU's house bank is a public institution with a responsibility towards EU citizens and nature. The EIB therefore has a duty to ensure that the money it invests is spent wisely and contributes to Europe's long term sustainability vision.

This new report reveals that the vast sums (EUR 112 billion between 1996 and 2005, and almost EUR 15 billion in 2005 alone) invested by the EIB on the transport sector in the last decade have not helped to deliver the EU White Paper on Transport's goals of modal shift and decoupling of transport from growth, nor have they contributed to the halting of climate change. On the contrary, with its ongoing heavy investments in aviation, new roads and car manufacturing the EIB is supporting the status quo by increasing environmentally unfriendly transport modes and is fueling rather than cooling climate change.

As an EU institution with huge financial potential the EIB could be a key source supporting true environmental revolution in European transport development. With the simple ability to accept or reject a project that comes before it, the EIB has hugely significant power to define the economic, environmental and social landscape across Europe and elsewhere. Yet, as this report shows, this power is currently confined to responding to its clients' demands rather than to the long term challenges facing Europe and the rest of the world.

We hope the report you have in your hands will stimulate further discussion on how to make the EU's house bank, fuelled with taxpayers' money, thoroughly deliver on commitments which reflect the interests of people and nature.



Magda Stoczkiewicz
Policy Coordinator
CEE Bankwatch Network

Executive Summary



This report critically analyses the European Investment Bank's transport portfolio (1996-2005) and its compatibility with EU environmental, social and transport objectives. It presents a number of case studies of environmentally, economically and socially controversial projects that have enjoyed EIB loans.

In the EU the transport modes with the highest external costs – road and air – have grown rapidly, with a corresponding increase in climate impacts. The 2001 EU White Paper on Transport sought to address these issues by internalising the external costs of transport, decoupling transport growth from GDP growth, shifting to more sustainable modes of transport and controlling the growth of aviation. However, the White Paper is applied selectively by the EIB, partly because the EIB does not have a transport operational policy. Instead the EIB uses very general objectives for all of its lending sectors (including transport). As a result, almost any kind of project is eligible for EIB financing.

The EIB does not assess the cumulative impacts of its portfolio and its contribution to the White Paper's objectives, and too great a proportion of its transport investments have gone to environmentally and socially unsustainable projects. Globally, over half of the EIB's transport investments have gone to roads and air transport; in central and eastern Europe this figure stands at an enormous 68 per cent for the period 1996-2005. Although the EIB is investing in urban public transport and rail, it has supported road and air more heavily – therefore it is maintaining an unfavourable modal split.

Of particular concern are the climate change impacts of the EIB's road and air projects. An estimate of the potential CO₂ emissions from a selection of the EIB's already funded airport expansion projects finds that cumulatively the resulting passenger flights are likely to result in extra emissions greater than the annual CO₂ emissions of the three dirtiest coal power stations in Europe. The EIB's climate change statement treats climate change-related investments such as renewable energy as an added extra rather than actively committing not to finance projects with a significant climate impact. Climate-related costs are calculated only as part of the economic appraisal for a project, so it is difficult to imagine a case where this would lead to the EIB refusing to finance a project.

More broadly the EIB lacks the capacity to assess other environmental impacts sufficiently, which has led to the approval of some projects damaging to biodiversity and air quality. Often court rulings proving violation of national or EU law are the only way to stop the EIB financing such projects – instead of being theoretically served by the EIB, instead the burden of proof can very often fall on people living in Europe when an EIB project is illegal.

The EIB does not have any policies limiting or halting financing for any private industry sector, no matter how environmentally harmful. Its direct lending to car manufacturers makes up 31% of its lending to industry – much higher than its direct lending to any other industry sector – and raises questions about using public money to support a sector which pays few of its external costs.

The EIB has also supported several public-private partnership (PPP) schemes for infrastructure construction and management. Again, in this area of finance its procedures are insufficient to ensure that the public interest is being served and that PPP offers value for money compared to public procurement. In some cases where the EIB has been involved such as the London Underground, excessive profits appear to flow to companies at the expense of transport users or taxpayers.

The report concludes that the EIB must stop financing the heavily-subsidised aviation sector, restrict road financing to safety and maintenance projects, and restrict support for the car industry to research and development of more efficient or new technologies. As per its statute, the EIB should not – as is its tendency – finance any project that can be financed by other sources at reasonable rates. It is also imperative that the EIB develops its own operational policy for the transport sector: this must be clearly related to the aims of the White Paper and prioritise public transport, transport management systems, inter-modal facilities, pedestrian schemes and bicycle infrastructure.

The EIB needs to develop criteria – tighter than legislation – for excluding projects on environmental or social grounds and needs to set year-on-year limits and targets for reductions in the greenhouse gas emissions of its projects. It needs to improve its project appraisal process, particularly by assessing the cumulative impacts of its projects and by independently verifying project promoter claims concerning environmental and social concerns, particularly outside of the EU.

Criteria should be set for excluding under-performing companies and those convicted of corruption. In PPP projects, the EIB must ensure strong public scrutiny over PPP projects and be much more active in ensuring the quality of Value for Money and Public Sector Comparator analyses. It must also scrutinize PPP contracts and refuse to finance projects in which excess profits for the private sector seem likely or for which the private sector risks are low.



1. Introduction

In 2005, the European Investment Bank (EIB), the European Union's financing institution, signed loans worth EUR 47.4 billion,¹ significantly more than other more well-known international financial institutions (IFIs) such as the World Bank. Around **one third** of this (approximately EUR 14.66 billion) was **for transport projects**², with a further EUR 1.2 billion in direct support for the car and aircraft manufacturing industries.

Transport is a crucial issue within the European Union: on the one hand it is key to the EU's coherence but, on the other, while almost all other sectors are stabilising greenhouse gas (GHG) emissions, those from transport are growing rapidly. Congestion is increasing, while noise and pollution are problems for those living near roads and airports, and natural habitats are being destroyed by the construction of new transport infrastructure.

The European Commission tried to address some of these problems in its 2001 White Paper on Transport, which aimed at slowing traffic growth and moving as much traffic as possible onto rail and urban public transport. The EIB's role is to use its funds to implement EU policies, and since it is a non-profit institution investing huge sums of public money into transport projects, it has a unique responsibility to

ensure that these should work for the good of people and the environment.

Its projects must be chosen in a balanced and selective manner, and should reflect careful analysis of how to implement the EU's goals for the transport sector, so that the EIB's overall portfolio contributes to increasing the share of rail and urban public transport, not to the growth of road and air transport. The proportion of financing given to the different modes and different types of projects within those modes must also be sufficient to change – rather than reproduce – the status quo.

Yet far too often this has not been the case. As this report shows, the EIB does not always adequately assess the environmental and social impacts of projects, and its assessment criteria appear to contain a number of important blind spots.

In addition, during and after the implementation of projects, even the EIB does not always seem to know whether its projects have been effective. The bank's monitoring of the non-financial areas of projects mainly concentrates on the final costs and completion dates,³ so there is insufficient evaluation of other aspects, such as environmental and social issues, and the overall usefulness of the projects.

¹ EIB website, accessed 18th September 2006: <http://www.eib.org/about/index.asp?designation=keydata>

² Calculated from EIB project database. It is impossible to be sure of the exact figures lent for transport because some projects have mixed categories, such as urban infrastructure projects, so only projects consisting entirely of transport have been included here.

³ EIB Operations Evaluation department: Evaluation of EIB Financing of Air Infrastructure, January 2005, p.25



Notably, a 2005 evaluation report on EIB investments in the air infrastructure sector noted that project completion reports had not been filled in for several of the projects, and where they had they sometimes over-rated the success of the projects:⁴ “*The weaknesses in project monitoring and follow-up noted in many projects are issues that are well known to the Bank from previous evaluations.*”⁵ Whilst the honesty of the evaluation is welcome, it is hardly reassuring and raises a host of questions about the bank’s ability to utilise public money “*as rationally as possible in the interests of the (European) Community*”⁶.

With these issues in mind, this report aims to bring to light some of **the environmental, social and economic blind spots** which the EIB’s transport

financing suffers from, and gather together **case studies showing the concrete impacts** of EIB-financed transport projects as a basis for **recommendations** on how the Bank could make better quality and more goal-oriented – even if fewer – transport investments, with lower costs for people and the environment. While the EIB’s commitment to finance urban public transport and rail is generally positive, the report argues that without commitments to avoid financing the more environmentally harmful transport modes – air and road transport – the bank’s positive transport investments will have an insufficient impact on improving the modal share of rail, urban public transport, cycling and walking, and therefore on achieving the EU’s transport and environmental objectives.

⁴ EIB Operations Evaluation department: Evaluation of EIB Financing of Air Infrastructure, January 2005, p.25

⁵ EIB Operations Evaluation department: Evaluation of EIB Financing of Air Infrastructure, January 2005, p. 3

⁶ EIB statute, Article 20, p. 19



2. Overview of transport in the European Union

Transport is a highly important issue in the context of European integration as the development of the internal market has required a move from a series of essentially national transport networks to a more integrated European transport network in order for goods and people to easily move around within the EU. This has particularly been the case in the new member states, where travel to western Europe was limited during the Communist period, and where trains and urban public transport previously made up the majority of journeys made, but where private vehicles have become more and more dominant.

The ideal of European mobility has faced serious problems. First, for cross-border journeys, numerous obstacles remain which make journey times longer than necessary. These include lack of compatibility between different national rail systems, long queues on road borders, and long journey times for rail freight, which must wait for passenger trains to pass.

Second, there are necessary limits to mobility. Solely from the mobility perspective – without adding envi-

ronmental considerations – the more people travel, the more congestion there is, and relative mobility declines in the congested areas because of delays. For example, in London, the average speed for road transport during the morning peak period in 2002-3 was just 9.9 miles per hour (15.8 km/h), while in 1974-6 the speed during the peak period was 14.2 miles per hour (22.7 km/h).⁹ This phenomenon is most acute with road transport because it takes up a large amount of space per person, but also occurs with other modes to some extent. The traditional response to these problems has been to build more roads, but it has gradually become apparent that it is impossible to build one's way out of congestion (see section 2.1.1 below).

Third, some transport modes have much higher external costs than others. Currently there is a huge imbalance between the prices that people pay to use a certain mode of transport in the EU compared to the external costs of that mode, for example it is much more expensive to cross Europe by train than by aeroplane, even though aviation has much higher external costs.

⁷ Eurostat News Release: Nearly one car per two inhabitants in the EU25 in 2004, 19th September 2006

⁸ Eurostat Website: Transport Growth: http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=Yearlies_new_transport&root=Yearlies_new_transport/G/eba10000, viewed 17th November 2006

⁹ Laura Blow, Andrew Leicester and Zoe Smith: London's Congestion Charge, Institute for Fiscal Studies, Briefing Note No. 31, 2003, www.ifs.org.uk/bns/bn31.pdf

Transport in the European Union

By 2004 Czech Republic and Lithuania had more cars per thousand inhabitants (373 and 384 respectively) than Denmark (354) or Greece (348)

Total passenger transport in the EU-15 increased by 20% between 1990 and 2000 and freight transport increased by 26% in the same period, bringing a corresponding increase in the problems associated with increased travel.

Figure 1: Average external costs in 2000 for passenger transport

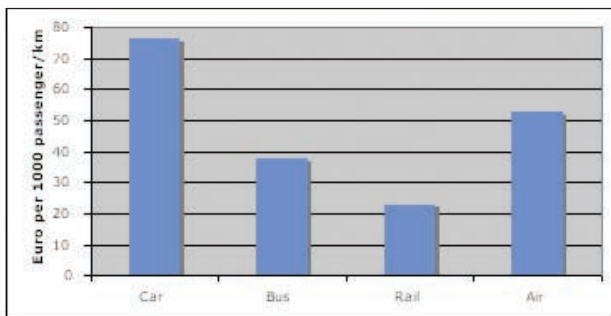
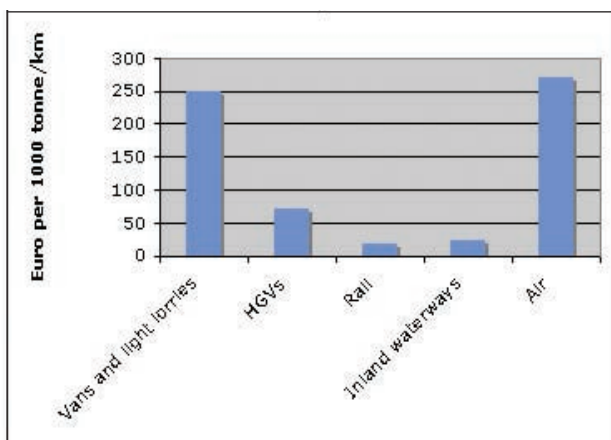


Figure 2: Average external costs in 2000 for freight transport



As the graphs show, cars, vans and aviation have particularly high external costs per passenger- or tonne-kilometres. The fact that aviation has been calculated to have lower external costs per passenger kilometre than cars should be accompanied by the caveat that people tend to make much longer journeys by plane so the overall external costs per journey are likely to be higher.

Unfortunately the modes with the highest external costs are also the ones which are dominant or growing rapidly in the EU. As shown in the graphs below, cars dominate passenger transport in the EU-25, making up 74.4% of passenger-kilometres in 2003, and car journeys are growing in absolute terms. Air passenger transport is growing both absolutely and relatively (intra-EU air transport made up 7.5% of passenger-kilometres in 2003), while the share of rail and sea transport in passenger transport is in decline (5.8% and 0.6% in 2003 respectively).¹²

With freight, sea transport holds a much greater share (39% in 2004), but road transport is increasing (44.3% in 2004) and rail is declining in relative terms (10% in 2004) but still growing slightly in absolute terms.¹³ The number of cars per 1000 inhabitants in the EU-15 countries rose from an already high 401 cars in 1991 to 488 cars in 2001.¹⁴

¹⁰ The Greens/EFA: Soft Mobility Paper: Measures for a climate-friendly transport policy in Europe, July 2006, p.15

¹¹ The Greens/EFA: Soft Mobility Paper: Measures for a climate-friendly transport policy in Europe, July 2006, p.16

¹² Source: European Commission Directorate-General for Energy and Transport: "Energy and transport in figures 2005", Part 3, 2005, Table 3.3.2

¹³ Source: European Commission Directorate-General for Energy and Transport: "Energy and transport in figures 2005", Part 3, 2005, Table 3.2.2

¹⁴ Eurostat website: Passenger Cars per 1000 Inhabitants, http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&dad=portal&_schema=PORTAL&screen=detailref&language=en&product=Yearlies_new_transport&root=Yearlies_new_transport/G/eba12048, viewed 17th November 2006

Transport in the European Union

Figure 3: Modal split of passenger transport in the EU-25, in billions of passenger-kilometres, 1996-2003¹⁵

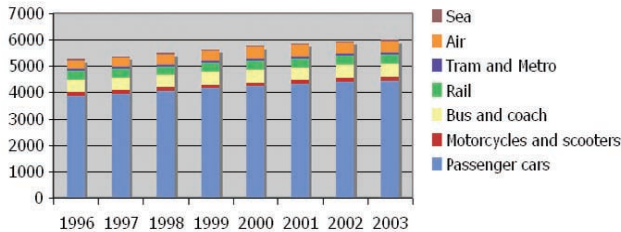
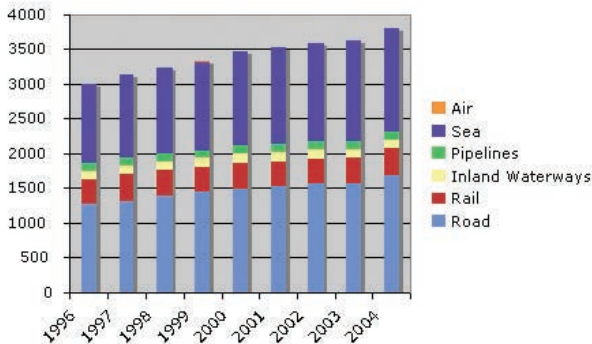


Figure 4: Modal split of freight transport in the EU-25 in billions of tonne-kilometres, 1996-2003¹⁶



2.1 The 2001 White Paper on transport

Given the above situation, in 2001 the European Commission produced a White Paper on transport "European Transport Policy for 2010 - Time to Decide"¹⁷. The White Paper set out goals and

actions that needed to be undertaken and incorporated several principles crucial to the reduction of the environmental impact of transport in the EU. It also attempted to increase the share of rail, urban public transport and inland waterways, as well as addressing the absolute growth of transport and its negative side effects, with aims including:

- internalising the external costs of transport¹⁸,
- decoupling transport growth from GDP (Gross Domestic Product) growth,¹⁹
- shifting the balance between modes of transport,²⁰
- controlling the growth of aviation.²¹

Partly in contradiction with the aims above, the White Paper also lays out the EC's intention to continue with the development of the Trans-European Transport Network (TEN-T),²² a massive programme originating from proposals by the influential European Roundtable of Industrialists (ERT) lobby group,²³ which aims to better connect Europe. While some of the aims of the programme, such as improving cross-border sections and interoperability and optimising the capacity of existing infrastructure²⁴ are positive, the assumption that the functioning of the single market requires additional infrastructure is seriously flawed.

Since 1990, when the TEN-T concept was created, the EC and member states have never reviewed the necessity of TEN-T. A thorough analysis of the infrastructure and non-infrastructure bottlenecks in Europe is also missing and the priority projects have

¹⁵ NB. Air and sea statistics only include intra-EU-25 journeys. Source: European Commission Directorate-General for Energy and Transport: "Energy and transport in figures 2005", Part 3, 2005, Table 3.3.2

¹⁶ NB. Air and sea statistics only include intra-EU-25 journeys. Source: European Commission Directorate-General for Energy and Transport: "Energy and transport in figures 2005", Part 3, 2005, Table 3.2.2

¹⁷ In 20

2005 did not need to take it into account.

¹⁸ European Commission: White Paper "European Transport Policy for 2010 - Time to Decide" http://ec.europa.eu/transport/white_paper/index_en.htm, 2001, p.71

¹⁹ European Commission: White Paper "European Transport Policy for 2010 - Time to Decide" http://ec.europa.eu/transport/white_paper/index_en.htm, 2001, p.70

²⁰ European Commission: White Paper "European Transport Policy for 2010 - Time to Decide" http://ec.europa.eu/transport/white_paper/index_en.htm, 2001, p.22

²¹ European Commission: White Paper "European Transport Policy for 2010 - Time to Decide" http://ec.europa.eu/transport/white_paper/index_en.htm, 2001, p.35

²² European Commission: White Paper "European Transport Policy for 2010 - Time to Decide" http://ec.europa.eu/transport/white_paper/index_en.htm, 2001, p.48ff

²³ Corporate Europe Observatory: European Business Summit Factsheet No. 3: ERT: Corporate Europe's Elite, 2000, <http://www.corporateeurope.org/ebsummit/factsheet3.htm>

²⁴ European Council and Parliament Decision 884/2004/EC, Article 1.3 29th April 2004 europa.eu.int/eur-lex/pri/en/oj/dat/2004/l_167/l_16720040430en00010038.pdf

Transport in the European Union

An overall aim of the White Paper was less but better infrastructure construction.

tended to be expensive prestige projects put forward by national governments and industry associations seeing a financing opportunity for projects which may otherwise not be realised, such as the Oresund Fixed Link between Denmark and Sweden, which cost around EUR 2 billion²⁵.

The White Paper did envisage building *some* transport infrastructure, particularly for rail and shipping, but it also emphasised, as we shall see below, that **road and aviation infrastructure construction need to be drastically reduced**. In short, an overall aim of the White Paper was **less but better infrastructure construction**.

2.1.1 Decoupling transport growth from GDP growth

Traditionally bottlenecks in transport infrastructure have been addressed by building extra capacity. However, it has gradually been accepted that this 'predict and provide' strategy is inadequate. As long ago as 1994, a UK government SACTRA report found that **construction of new roads in order to relieve congestion and therefore benefit the economy is ineffective, as the construction of new roads induces new traffic**:

*"In conditions of congestion, the consumer benefits of a scheme would be generally reduced by the effects of induced traffic and, in some circumstances, this could then make the net present value of the scheme negative, though this would not necessarily be the case. The Committee's analysis suggested that the more typical case would probably be to make the net consumer benefits smaller, but still positive. The environmental effects of induced traffic would, however, generally be unambiguously negative."*²⁶ Similarly an independent 2006 report²⁷ showed that

three closely examined UK bypass schemes had experienced large traffic increases (up to 76%) – well beyond what had been predicted – and that benefits for town centres did exist but to a smaller extent than predicted. It is not possible to ascertain how much of this traffic was new traffic, and how much was changing routes, but the smaller-than-expected benefits for the town centres suggested that the new roads had indeed encouraged a significant volume of traffic.

Such studies have contributed to a gradual acceptance by decision-makers that **it is impossible to build one's way out of congestion**. This was formalised in the 2001 White Paper, which set out the intention to limit transport growth relative to GDP growth, an aim which has also been backed up by the 6th Environmental Action Plan (6th EAP)'s call for "Structural changes in the transport sector to address transport demand"²⁸.

Proponents of road transport and aviation frequently argue that this would harm the economy and that road and air transport growth has to be accommodated, but evidence for this is rather lacking. (see Section 7.1 for more details) The fear that controlling traffic growth may be detrimental to competitiveness also needs further examination in the light of rising oil prices. Seventy-one percent of all oil consumed in the EU is used by transport: 60% of all oil consumed in the EU is used by road transport alone, with 9% by air transport.²⁹ In the event of further rises in price or interruptions in supply, fuel efficiency and the minimisation of transportation are likely to be important factors in how much the EU is affected, and making investments into energy-intensive modes of transport now is likely to prove poor value for money in the near future. Investments need to be made with fuel efficiency and diversification as paramount concerns

²⁵ Oresund Bridge website: <http://osb.oeresundsbron.dk/documents/document.php?obj=1000>, viewed 16th November 2006

²⁶ SACTRA (Standing advisory committee on trunk road assessment): "Trunk Roads and generation of traffic", HMSO, 1994, cited in SACTRA, 1999, see below.

²⁷ Lilli Matson

Final report for CPRE and the Countryside Agency, July 2006, p.11 www.cpre.org.uk/resources/pub/pdfs/transport/road-transport/beyondtransport-infrastructure-report.pdf

²⁸ European Commission: Communication from the Commission to the Council, the European Parliament, the Economic and Social Com

Our future, Our choice" - The Sixth Environment Action Programme /* COM/2001/0031 final */, Section 3.3

²⁹ Communication From The Commission To The Council And The European Parliament: "Keep Europe moving - Sustainable mobility for our continent, Mid-term review of the European Commission's 2001 Transport White Paper", 22.06.2006, p.15

Transport in the European Union

lost in transportation



in order to increase the EU's energy security and independence.

The main implication of the decoupling policy is that **it is necessary not only to shift towards those forms of transport with the lowest external costs, but also to limit the growth of the modes with higher external costs, ie. aviation and road transport.** This can take various forms, such as financial (dis)incentives such as taxes, but **an important first step is to stop pouring financing into new capacity for those modes.**

In terms of public investments into individual transport projects, 'decoupling transport growth from GDP growth' means that it is necessary to **both passively limit traffic growth**, by not financing projects likely to lead to an overall increase in traffic (including non-transport projects such as oil infrastructure, or edge-of-town and out-of-town shopping centres or supermarkets), **and actively finance projects which would help to limit traffic growth**, such as traffic management schemes, urban pedestrian and cycling schemes and models of production and consumption involving less transportation, such as local food projects.

However, the EIB does not recognise this. When asked what the EIB is doing to further the 6th EAP's requirement for structural changes in the transport sector to address transport demand, the reply was that *"The EIB addresses these issues by financing sustainable urban transport schemes, or projects promoting the use of alternative transport fuels such*

as biofuels."³⁰ These activities are clearly useful and are likely to address CO₂ emissions from transport. Yet the EIB's unwillingness to directly preclude investments that will promote the growth of road and air transport means that its other transport investments are unlikely to have any overall cumulative positive impact.

2.1.2 Internalising the external costs of transport

As shown above, transport – particularly road and air traffic – does not cover its external costs, and users therefore pay a much lower price than the real cost of their transport of choice for society and the environment. This keeps demand artificially high and since the different modes are unequally privileged in terms of pricing, competition between the transport modes is distorted. For example, there is no fuel tax on kerosene for aviation, whereas road and rail fuel is subject to taxation, and payment for the use of roads varies from country to country, but nowhere does it cover anything like the full costs of road transport.³¹ This subsidises the modes with the highest external costs.

The White Paper sought to address this problem by advocating a gradual change from existing taxes on transport to taxes for use of infrastructure (to ensure that payment is made by users rather than by all taxpayers) and for fuel (to encourage fuel efficiency and the use of less polluting modes).³² This is particularly important in the air transport sector where kerosene is not subject to fuel tax.

³⁰ EIB response to Bankwatch information request, Luxembourg 10th December 2006

³¹ Louis Berger SA: Transport Infrastructure Regional Study (TIRS) final report, 2002, p.52

³² European Commission: White Paper "European Transport Policy for 2010 - Time to Decide" http://ec.europa.eu/transport/white_paper/index_en.htm, 2001, p.71

Progress towards this goal is proceeding rather slowly and, until this changes, **a precautionary approach is required in publicly financed projects.** The existing hidden subsidies create more favourable market conditions for some types of transport – such as air and road – than for others, which in turn improves the financial liquidity and investment conditions in these sectors. Commercial financing should be more easily available to them than to rail and urban public transport and, therefore, it is questionable whether public money should be available to finance them.

2.1.3 Shifting the balance between modes of transport

As we have seen above, rail has suffered a decline during the last decades, while road transport has rapidly expanded and car ownership has increased. However the need to move away from road and air transport, towards rail, urban public transport, walking and cycling exists both because of absolute constraints on road and air transport capacity (congestion and limited possibilities for the further expansion of infrastructure) and for environmental reasons (reducing climate impact and air pollution). For this reason the 2001 White Paper welcomed the commitment by various European rail stakeholders to increase rail's share of passenger transport from 6 to 10% and freight transport from 8 to 15% by 2020.³³

The aim of moving from mostly private road transport towards more environmentally acceptable modes is known as 'modal shift'. Certain barriers remain to the achievement of this goal, however: for example, the most environmentally acceptable modes for longer journeys (rail and inland waterways) are often less convenient than road transport, which has a much greater infrastructure network. With this in mind the White Paper emphasised the need to improve inter-modal transport in order for the best use to be made of rail infrastructure and waterways.

In terms of project financing, this means that projects need to contribute to an increase of rail, urban public

transport, inland waterways, walking and cycling relative to road transport and air transport. This means that **financing should privilege the modes whose share needs to be increased, and should not contribute to expanding the modes with high external costs.**

2.1.4 Controlling the growth of aviation

The transport White Paper sought to address the high external costs of aviation by emphasising the need to make the best use of existing infrastructure and to control the growth of aviation through negotiating a tax on kerosene within the International Civil Aviation Organisation, as well as organising the use of existing infrastructure and slot allocations more efficiently.³⁴

These measures are not sufficient on their own, particularly as the White Paper also laid plans for the liberalisation of air traffic, which has proceeded much faster than efforts to internalise the external costs of transport and has facilitated the massive growth of 'low-cost' flights. This has encouraged those who fly to do so more often than they would previously have done and, unless it is coupled with appropriate measures to ensure that aviation covers its external costs, it will continue to contradict the aims of modal shift and addressing transport demand.

While the White Paper explicitly mentions "controlling the growth of aviation" as an aim³⁵, the EIB denies that controlling the growth of aviation is one of the EU's objectives: "*EU policy is not to minimise the use of air transport; it is to minimise its environmental impact.*"³⁶ The idea that rapid growth of air transport is inevitable is also reflected in other public EIB statements, for example: "*Capacity constraints ... if not addressed, will hamper the future development of air transport.*"³⁷ However the rapid growth rate of CO₂ emissions from the EU's international aviation (86% between 1990 and 2004³⁸) indicates that the negative environmental impacts cannot be tackled without tackling the growth of air transport at its roots.

³³ European Commission: White Paper "European Transport Policy for 2010 - Time to Decide" http://ec.europa.eu/transport/white_paper/index_en.htm, 2001, p.27

³⁴ European Commission: White Paper "European Transport Policy for 2010 - Time to Decide" http://ec.europa.eu/transport/white_paper/index_en.htm, 2001, p.104

³⁵ European Commission: White Paper "European Transport Policy for 2010 - Time to Decide" http://ec.europa.eu/transport/white_paper/index_en.htm, 2001, p.35

Transport in the European Union



The EIB must take this policy more seriously in the future as the European Commission has proposed to include aviation in the EU Emissions Trading Scheme, along with the introduction of tax on kerosene³⁹, and the European Parliament has

adopted a stronger Resolution calling for a rigorous cap on emissions and an immediate tax on domestic and intra-EU flights.⁴⁰ Although such moves have yet to be implemented and are not sufficient to tackle aviation's impact on climate change on their own, they show that public investors must expect the growth of aviation to be 'hampered', and must plan accordingly, as investments into extra airport capacity or new aeroplanes are long-term projects which cannot be easily undone.

Concretely, this means that **public money must not be used for aviation projects and should instead be used for projects which contribute to decreasing the need for air traffic expansion**, such as improving railways, cross-border rail interoperability and inter-modal freight facilities.

³⁶ EIB Operations Evaluation department: Evaluation of EIB financing of airlines, March 2004, p.9

³⁷ EIB Operations Evaluation department: Evaluation of EIB Financing of Air Infrastructure, January 2005, p.10

³⁸ See table in Appendix 1

³⁹ European Commission: Communication From The Commission To The Council, The European Parliament, The European Economic And Social Committee And The Committee Of The Regions: Reducing the Climate Change Impact of Aviation, 27.09.2005, http://ec.europa.eu/environment/climat/aviation_en.htm

⁴⁰ Euro

[getDoc.do?Type=TA&Reference=P6-TA-2006-0296&language=EN](http://ec.europa.eu/environment/climat/aviation_en.htm)



3. Overview of the EIB's priorities

3.1 In theory ...

The EIB was set up under the Treaty of Rome in 1958 and gives loans and guarantees on a not-for-profit basis. The bank's members are the member states of the EU, which contribute funds for the bank's capital and have decision-making power in the Board of Governors and Board of Directors.

The EIB, as a body of the European Union, is supposed to follow the EU's priorities in its investments, and to "contribute towards the integration, balanced development and economic and social cohesion of the Member Countries".⁴¹

According to the EIB, current priorities affecting the transport sector are:

- Economic and social cohesion in the enlarged EU
- Development of Trans-European and Access Networks
- Support of EU development and cooperation policies in partner countries
- Environmental protection and improvement, including climate change and renewable energy⁴²

From these priorities it can be seen that **the most progressive aims of the White Paper on transport are missing and TEN-T has been singled out by the EIB as its main transport priority.** It is being treated in isolation from EU transport and sustainable

development policy as a whole, which as we shall see has led to the financing of a series of infrastructure projects and not necessarily to the development of a coherent and functioning European transport network.

Furthermore, the priorities shown above are very broad objectives, and in practice they can be used to justify just about any project.

The EIB's statute does not give satisfactory criteria for ensuring that public money is used in the most responsible way and that projects offer good value for money for taxpayers in the donor states. The EIB "*may grant loans or guarantees only where the execution of the project contributes to an increase in economic productivity in general and promotes the attainment of the common market.*"⁴³

There are rather few projects which cannot be said in some way to contribute to these objectives, even when the reasoning involved is sometimes questionable, for example with widely-hailed roads projects which may or may not contribute to increased economic productivity.

Other conditions in the EIB's statute that place some limitations on the bank's involvement in projects are as follows:

- **The bank should lend money only when "funds are not available from other sources on reasonable terms",⁴⁴**

⁴¹ EIB website, accessed 18th September 2006: www.eib.org/about

⁴² EIB website, accessed 18th September 2006 <http://www.eib.org/about/index.asp?designation=objective>

⁴³ EIB statute, Article 20, paragraph 1b, 2004, p.19

⁴⁴ EIB statute, Article 18, paragraph 1, 2004, p.18

Therefore the bank's financing is essentially public money.

Overview of the EIB's priorities

- Money should be lent outside of the EU member states only when the Board of Governors unanimously agrees.⁴⁵
- As far as possible, loans should only be granted on condition that other sources of finance are also used.⁴⁶

The EIB's Eligibility Guidelines⁴⁷ stipulate three pillars of value added as the basis for project assessment:

- consistency between each operation and the priority objectives of the EU;
- quality and soundness of each project; and
- particular financial benefits obtained by the provision of the EIB funds to the promoter.

However, as we shall see, even these few criteria are not always adhered to in the project approval process. The EIB interprets the clause about lending money only when funds are not available from other sources on reasonable terms as follows: *"To allow promoters to make use of other sources of finance wherever possible, the EIB's intervention in any project is limited to 50% of the cost of the qualified investment cost of a project as it is established during appraisal."*⁴⁸

There is quite a large difference between this and not financing projects at all when other funds are available, and a number of EIB-financed projects need not have been financed by public money, according to the bank's own evaluations. (See section 3.2)

The EIB has little incentive to ensure that projects offer good value for money for taxpayers in the borrowing state. According to the EIB, in most cases interest and amortisation payments *"should be covered either by a commitment entered into by the State in which the project is carried out or by some other means"*⁴⁹.

As long as a project is guaranteed with taxpayers' money the bank will receive its repayments,

whether the project is necessary and successful or not:

*"The fact that the internal rates of return are low does not have any practical implications from the point of view of the EIB's banking risk: either the borrower (and guarantor) is different from the promoter, or financially sound companies (particularly the motorway companies) service the debt by means of cross subsidies from the more profitable sections of the network; or loss-making companies receive public transfers and/or subsidies."*⁵⁰

Even more revealing than the EIB's statute and eligibility guidelines is the lack of an EIB operational policy and conditions in other areas. **The EIB has neither a proper environmental policy (only an 'environmental statement', which lacks sufficient operational guidelines), nor sectoral policies, even in major sectors such as transport and energy.** The short statement on 'the EIB and the environment' on the bank's website states that the EIB seeks to ensure that all its projects:

- Promote EU environmental policy.
- Comply with EU environmental law in the EU, acceding and candidate countries.
- Comply with EU environmental law, subject to local conditions, in all other countries of operations.
- Fulfill the requirements of the EU Directive on Environmental Impact Assessment, where applicable.
- Apply 'best available techniques', as appropriate.
- Apply good environmental management practices, including disclosure of environmental information.⁵¹

The EIB is also a participant in the new European Principles for the Environment initiative⁵², in which it commits to apply the guiding environmental principles from the EC Treaty and the practices and standards from EU environmental legislation in projects in the European Economic Area countries, the EU Acceding, Accession, Candidate and potential Candidate

⁴⁵ EIB statute, Article 18, paragraph 1, 2004, p.18

⁴⁶ EIB statute, Article 18, paragraph 2, 2004, p.18

⁴⁷ EIB website: EIB Eligibility Guidelines, 24.06.2004, <http://www.eib.org/publications/publication.asp?publ=153>, viewed on 27.11.2006

⁴⁸ EIB response to Bankwatch information request, Luxembourg 10th December 2006

⁴⁹ EIB statute, Article 20, paragraph 1a, 2004, p.19

⁵⁰ EIB: Contribution Of Major Road And Rail Infrastructure Projects To Regional Development, September 1998, p.8

⁵¹ EIB website: "EIB and the Environment" <http://www.eib.org/site/index.asp?designation=environment>, accessed 18th September 2006

⁵² For more details see www.eib.org/epe

Overview of the EIB's priorities

Countries. Whilst this commitment is welcome, it remains to be seen how effectively it is implemented.

The EIB singles out the 6th EAP as the most important EU environmental policy guiding its work⁵³. In relation to transport, the 6th EAP states that:

*“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. Alternative fuels and appropriate engine technologies offering higher efficiency or low or zero carbon emissions need to be researched and exploited with a view to them becoming commercially viable. Attention will be given to aviation emissions which are expected to grow by almost 100% from 1990 to 2010.”*⁵⁴

Its policy implications are therefore similar to those of the 2001 White Paper, with an emphasis on decoupling transport growth from GDP, modal shift and limiting the growth of aviation.

3.2 And reality...

Since the EIB has no transport strategy of its own, it claims to follow EU policies. However, its approach to assessing a project's adherence to EU policies is far from rigorous.

In the case of air infrastructure investments from 1990-2001, for example, the bank's evaluation assessment of the projects' relevance to EU policy objectives stated that all of the projects within the EU were relevant to Article 267c) of the EU Treaty⁵⁵. The Article states that the EIB shall give loans and guarantees for: **“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.”**⁵⁶ The first clause is not very restric-



tive: any project in which several member states have an interest is valid. Yet it is doubtful whether airport infrastructure complies with this requirement, as airports, particularly large 'hubs', tend to compete with one another (no explanation is given in the Evaluation Report).

Only the stipulation about the lack of other available financing sources actually places any real limitations on potential project financing. In fact, it appears that the EIB's claim to have adhered even to this vague policy is false, as on page 3 of the same evaluation we learn that: *“there were only two cases, both outside the EU, where alternative sources of funding would not have been available and Bank participation was crucial for the success of the project.”*⁵⁷

This indicates that the EIB has repeatedly acted in contravention of Article 18 of its own statute, which allows financing only when “funds are not available from other sources on reasonable terms”.

Another justification for transport projects cited by the EIB is Article 267a) of the EU Treaty, which allows *projects which contribute to the development of the less developed regions of the EU.*⁵⁸ Although this claim is often inflated, it is hard to imagine any transport project in a less developed area for which the claim is not made, irrespective of whether these benefits do in fact show up in any rigorous evaluation.

⁵³ EIB website: “EIB and the Environment” <http://www.eib.org/site/index.asp?designation=environment>, accessed 18th September 2006

⁵⁴ European Commission: Communication from the Commission to the Council, the European Parliament, the Economic and Social Co

Our future, Our choice' - The Sixth Environment Action Programme /* COM/2001/0031 final */, Section 3.3

⁵⁵ EIB Operations Evaluation department: Evaluation of EIB Financing of Air Infrastructure, January 2005, p.12

⁵⁶ Consolidated version of the Treaty Establishing the European Community, http://europa.eu.int/eur-lex/lex/en/treaties/dat/12002E/htm/C_2002325EN.003301.html, Article 267c), viewed 10th October 2006

⁵⁷ EIB Operations Evaluation department: Evaluation of EIB Financing of Air Infrastructure, January 2005, p.3

⁵⁸ EIB Operations Evaluation department: Evaluation of EIB Financing of Air Infrastructure, January 2005, p.12

Overview of the EIB's priorities

lost in transportation

The EIB's transport lending has mainly been client-driven, and the bank has not succeeded in systematically taking different EU policies into account in order to ensure their balanced implementation. Instead of having a strategy based on a thorough analysis of different EU policies, and a portfolio reflecting all elements of the strategy, there have simply been a string of projects, and their connection to EU policy has been a tick-box exercise rather than a matter of planning and prioritising. Even the EIB's own evaluations have brought up this issue:

"...the evaluation did not find evidence of the Bank seeking to use its selection policy to maximise either project Relevance or the contribution to EU objectives; an issue which has been identified in previous evaluations."⁵⁹

An analysis of the EIB's transport projects 1996-2005 shows that many of the progressive aims of the 6th EAP and 2001 White Papers have not been followed by its investments, with large infrastructure such as TEN-T projects, taking priority:

- **There are no projects which visibly address transport demand**, such as pedestrian or cycling facilities or projects encouraging low-transport production models eg. local food schemes.
- **Although money has been spent on railways, still much more has been spent on roads**, making it even more difficult for railways to increase their modal share.
- **Nearly as much financing has been devoted to airports and airlines as has been used for urban public transport.** Yet public transport investments are encouraged by the White Paper and 6th EAP, whereas air traffic has been identified as a mode whose growth should be controlled.
- The EIB's main contribution to decreasing aircraft emissions is in financing the purchase of new aircraft, argued to be more efficient than older ones (see section on climate change).
- **No visible efforts have been made to limit the growth in demand for air transport**, and the EIB appears to be following an outdated and discredited 'predict-and-provide' policy.

The EIB's transport lending has mainly been client-driven

Figure 5: EIB worldwide transport investments 1996-2005 (excluding the car and aircraft manufacturing industries)

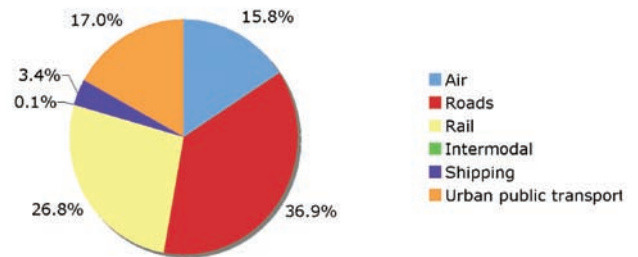


Figure 6: EIB transport investments 1996-2005 in the EU-15 (excluding the car and aircraft manufacturing industries)

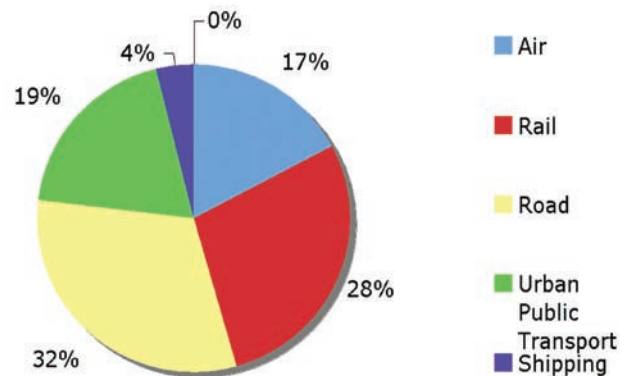
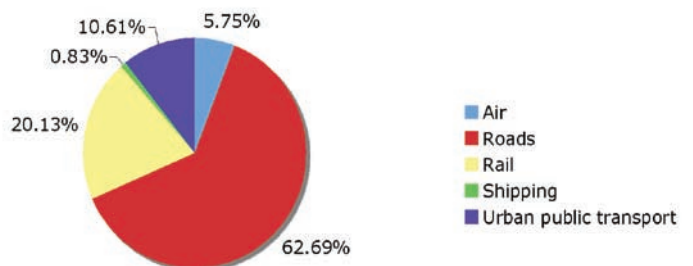


Figure 7: EIB transport investments 1996-2005 in central and eastern Europe (excluding the car and aircraft manufacturing industries)



Overview of the EIB's priorities

Between 1996 and 2005 the EIB lent:

- EUR 16 billion for aviation
- EUR 37.3 billion for roads
- EUR 27 billion for rail
- EUR 17.3 billion for public transport
- EUR 95 million for inter-modal transport
- EUR 3.4 billion for shipping

Additionally the Bank lent EUR 9.6 billion for car manufacturing and EUR 1.5 billion for aircraft manufacturing.

The investment pattern varies by region. Even in the EU, where investment is at its most balanced, the EIB's investment in roads has still been higher than in any other transport mode, and air traffic has received almost as much EIB investment as urban public transport.

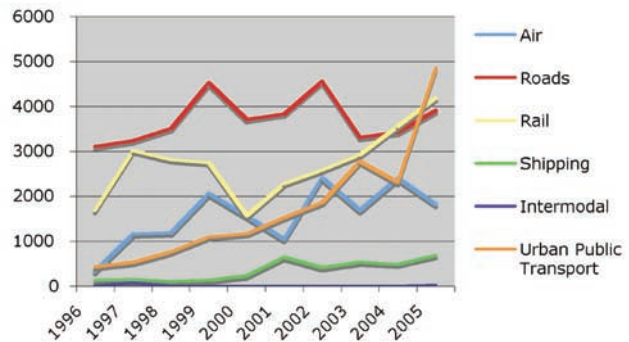
In other regions, the EU's aim of improving modal split has been reflected even less. **In central and eastern Europe around 62.69% of EIB transport investment has been for roads**, with around two thirds of this going to motorways.

This is particularly questionable considering that CEE countries had previously built up more sustainable transport systems, in which public transport and rail had the largest modal share. Instead of maintaining, improving and expanding these networks, governments – supported by the EIB – are spending vast amounts on encouraging road traffic, just as the EU is trying – at least in theory – to increase the share of urban public transport and rail. At the country level little effort is made by the EIB to support a balance of modes: for example, in Macedonia *only* road projects were supported and in Croatia 87% of EIB investments supported roads.

Over the period 1996-2005 there were some positive trends in the EIB's investments, such as a dramatic increase in lending for urban public transport and an increase in financing for rail.

However, **as long as financing for roads and air transport are maintained (as they have been with roads), or increased (as with air transport), rail will always be disadvantaged as air and road transport do not pay anything like their real (internal and external) costs**, and are therefore cheaper for users, though not for society and the environment.

Figure 8. EIB lending trends



Within modes the most noticeable concentration of funds has been in road projects, where **70% of worldwide EIB road loans between 1996 and 2005 went to motorways**. Almost all of these projects entailed the construction of new motorways or capacity expansion, thus encouraging the growth of road transport. A further 5% went for bridges and 4% for tunnels, some of which are also part of motorways. Only 21% was allocated to 2nd and 3rd class roads.

In urban public transport, 62% of investments went to metro systems with the other 38% being distributed among other modes such as trams, buses and urban light railways. It is not clear how much investment has been made into pedestrian or park-and-ride schemes and cycling infrastructure in cities, as these have either been included in non-transport project categories such as urban infrastructure or the EIB has not financed them at all.

For airports, excluding air traffic control projects, 54% of financing went to hub airports while 46% went to national or regional airports. Most of the projects involved at least some expansion of capacity, raising questions about the EIB's climate impact (examined in section 5).

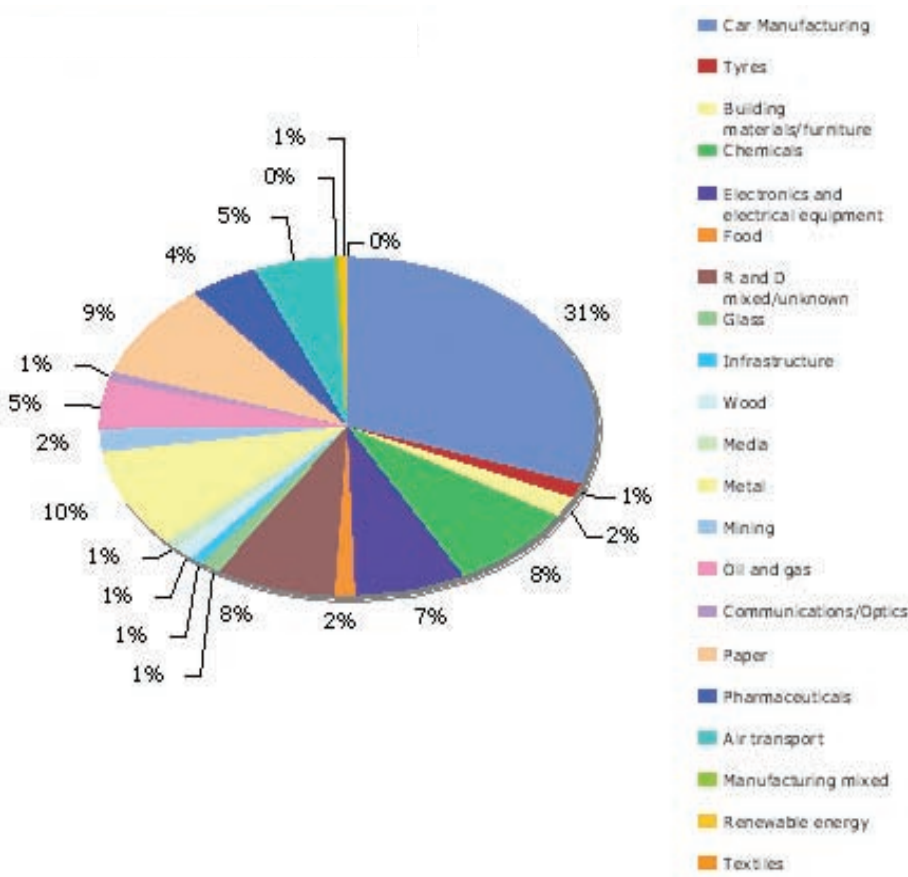
For railways, the 35 high-speed rail projects received 41% of the rail financing while the 115 normal rail projects received 51% of the rail financing (the remainder went for tunnels and road/rail bridges). This is expected considering the higher cost of constructing new high-speed railways. However, it raises the question of whether it is better to finance fewer, larger projects, or whether it would be better to make more, less costly improvements?

Overview of the EIB's priorities

lost in transportation

Although a wide range of rail projects have been financed by the EIB it is noticeable that **cross-border railway improvements have infrequently benefited from the bank's loans. This should be a priority area for the EIB** as it is for the EU White Paper on transport, and the bank should actively seek to finance such projects. This would be particularly valuable in south-eastern Europe, where long delays at borders are common and contribute to making rail travel slow compared with road transport.

Figure 9. Global EIB Industry Investments by industry sector 1996-2005



The car industry clearly dominates the EIB's lending to the industrial sector, with **31% of EIB industry loans worldwide supporting car manufacturing.** This percentage rises to **63% in central and eastern Europe,** and in **Czech Republic, 98% of EIB industry investments** between 1996 and 2005 **were for the car industry.** This preferential treatment for the car industry is examined below in section 6.3. The graph above does not include the support given to the aircraft manufacturing industry through loans to airlines to buy new aircraft, as these are included in the transport loan statistics.



4. The EIB's neglect of the White Paper and 6th EAP

The most progressive EU policies from an environmental point of view, namely the 6th EAP and the 2001 White Paper on Transport, feature only very selectively in the EIB's project selection and assessment process, and the bank has not ensured even the financing of their different policy strands. As the above breakdown of investments shows, the EIB has almost exclusively concentrated on upgrading and building new infrastructure along the TEN-T corridors without sufficiently analysing how best to contribute to the aims of the TEN-T programme. This emphasis on infrastructure and capacity expansion also contradicts other areas of the White Paper.

4.1 Internalising the external costs of transport

The internalisation of external costs is an essential prerequisite to achieving the decoupling of transport growth and economic growth and modal shift. In general, however, progress towards this goal is proceeding rather slowly, thus allowing the artificially rapid expansion of road transport and aviation, which have the highest external costs. So far the EIB's investments have reinforced this trend by financing large-scale capacity expansion in these modes.

Though the EIB clearly cannot create policies for internalising the external costs of transport in general, **it could and should avoid financing an expansion of those modes which have high unpaid external costs and concentrate on improving those modes with lower external costs, ie. rail, urban public transport, walking, cycling and inland waterways.** Until EU policies on this issue are decided upon and begin to take effect, it is rather short-sighted to invest into massive expansion of roads, airports and airlines, as these are all long-term investments which may be influenced by higher prices for fuel and any changes in the transport tax regime. The EIB should take a precautionary approach until EU policies for the internalisation of external costs have been introduced.

4.2 Decoupling transport growth from GDP growth

Decoupling transport growth from GDP growth requires both an absolute reduction in the growth of transport and a shift to sustainable transport modes,⁶⁰ in order to reduce emissions from transport and to reduce congestion by using more space-efficient transport. This requires disinvestment from those modes whose growth is to be curbed, ie. road and air transport, and investment

⁶⁰ Modal shift that it reduces CO₂ emissions, which is one of the possible indicators for assessing whether decoupling is taking place.

Neglect of progressive EU policies

The EIB should take a precautionary approach until EU policies for the internalisation of external costs have been introduced.

lost in transportation

in both sustainable transport and economic models which require less travel. In the EU, ten per cent of car journeys are shorter than a kilometre, 30% are shorter than three kilometres, and 50% are shorter than five kilometres,⁶¹ so many car journeys could be avoided altogether by walking or cycling.

However, the '*predict and provide*' ideology still dictates most of the EIB's transport investments, and it has made no commitment to avoid investments, even selectively, in the least sustainable modes, nor to avoid financing capacity increases in road and air traffic. As we have seen, 70% of the EIB's road investments have financed motorways, usually involving a significant capacity increase. It is unclear how this can be reconciled with the White Paper and the 6th EAP.

Although road and aviation projects are usually carried out with the expectation of relieving existing congestion, there have also been a number of cases – such as the Oresund Bridge and Lubeck Herrentunnel – in which **demand has been poorly forecasted and excessively large projects have been undertaken, only to later find that demand was not as high as expected**. This is particularly acute in public-private partnership projects, as the private partner is often dependent on demand-based fees for its income from the project. **Efforts are then made to increase the amount of traffic using the infrastructure, thus running completely counter to the policy of slowing transport growth.** (See Section 6.4 on public-private partnerships for more details.)

4.3 Shifting the balance between modes of transport

If rail transport is to enjoy relative growth compared to road transport, it is necessary to curb the growth of road transport – and there are a variety of instruments for this. The most basic of these is disinvestment in road capacity expansion. However, as we have seen the EIB has supported road transport to a greater extent than rail transport, so **the EIB's financing is not contributing to progress in rail**

transport relative to road transport. This is exacerbated by the fact that road transport started from a much stronger position than rail transport, and that it pays few of its external costs.

It may be argued that the TEN-T programme is helping to shift the balance between the modes of transport, as a large proportion of the network consists of rail projects. However, in implementation the rail component of TEN-T has been neglected compared to the road projects – in 2004 the European Commission estimated: **"For road, less than 4% of the length of planned links will still not be completed by 2010, and, for rail, up to 50% of the length of planned links will remain uncompleted"**.⁶²

In order to achieve balance in its investments the EIB needs to stop financing road capacity expansion and increase financing for rail projects, with particular emphasis to be given to cross-border sections.

4.4 Controlling the growth of aviation

Controlling aviation growth is a sub-aim of decoupling transport growth and GDP growth but it is important enough to merit a specific mention in both the White Paper on transport and the 6th EAP. The EIB has not acknowledged controlling the growth of air traffic as a policy objective, instead referring to the need to "*minimise its environmental impact*"⁶³. In other words: business as usual.

The EIB finances aviation in three main ways:

- Airport infrastructure (modernisation or expansion)
- Airlines (modernisation or expansion)
- Air traffic management projects

Of these, airport infrastructure and airline financing have often involved expansions in capacity, and therefore an expansion of the noise, pollution and greenhouse gases resulting from aviation. The section below on climate change gives some examples of the huge capacity increases resulting from EIB *airport infrastructure* investments and their effects.

⁶¹ The Greens/EFA: Soft Mobility Paper: Measures for a climate-friendly transport policy in Europe, July 2006, p.28

⁶² European Commission: Commission Staff Working Paper: Trans-European Transport Network Report From The Commission To The European Parliament, The Council, The European Economic And Social Committee, And The Committee Of The Regions On The Implementation Of The Guidelines For The Period 1998-2001, 2004, p.32

⁶³ EIB Operations Evaluation department: Evaluation of EIB financing of airlines, March 2004, p.9

Neglect of progressive EU policies

In the EU, ten per cent of car journeys are shorter than a kilometre, 30% are shorter than three kilometres, and 50% are shorter than five kilometres, so many car journeys could be avoided altogether by walking or cycling.



Regarding investments into *airlines*, it appears from EIB project information documents that the bank has supported fleet expansion, but it has not been possible to quantify this. Information requests on the climate change impacts of these projects were sent to the relevant airline companies but no replies have been received for this report.

The EIB justifies its support for air infrastructure with several arguments:

- Following the EU policy of liberalisation of air traffic
- Increasing the number of point-to-point flights, to complement 'hub and spoke' flights.⁶⁴
- Regional development and EU integration⁶⁵
- Improving safety⁶⁶

While the EIB was not responsible for the liberalisation policy, it should not use public money to implement it, benefiting only a relatively small number of people, (*see later discussion on subsidies for the air sector*) whilst causing a noise and pollution nuisance to others and contributing significantly to climate change.

Moving towards direct flights rather than hub and spoke flights might be reasonable in certain cases if it means that overall smaller distances are covered

and there are fewer flights. However, the EIB rarely does the calculations to work out whether a project is beneficial or not in this respect: "*Reduced congestion, and improved routings from better ATM⁶⁷ management, for example, have a positive environmental impact, but these improvements are rarely analysed in the Bank's appraisal reports.*"⁶⁸ Most importantly, from 1996-2005, 54% of financing went to major international hub airports, and 46% went to secondary and regional airports⁶⁹, therefore encouraging the growth of major hub airports more than secondary and regional airports combined. This means that **the EIB has perpetuated the growth of all classes of airports**, therefore contributing to an overall increase in air traffic.

The idea of moving towards more point-to-point flights is often linked with the idea of regional development through more airport infrastructure, and better integrating outlying areas of the EU. This point is discussed in section 7.1.

Improving safety is clearly a good aim, but generally relates only to air traffic management investments rather than infrastructure expansion investments. In the case of the Beijing International airport expansion (involving an EIB loan of half a billion euros), safety was cited as an important reason for the investment, but the fact that the capacity of the 35

⁶⁴ EIB Operations Evaluation department: Evaluation of EIB Financing of Air Infrastructure, January 2005, p.20

⁶⁵ See for example EIB press releases:

"EIB finances Warsaw airport expansion", 23/12/2002, <http://www.eib.org/news/press/press.asp?press=2590>

"Spain: Loans for financing the upgrading of Air Nostrum's fleet" 2003, <http://www.eib.org/news/press/press.asp?press=2652>

⁶⁶ See for example EIB press release: "EUR 500 million for the expansion of the Beijing International Airport (China), 06/09/2005, <http://www.eib.org/news/press/press.asp?press=2979>

⁶⁷ Air Traffic Management

⁶⁸ EIB Operations Evaluation department: Evaluation of EIB Financing of Air Infrastructure, January 2005, p.19

⁶⁹ Analysis of EIB transport investments database, excluding air traffic control investments.

Neglect of progressive EU policies

lost in transportation



million passengers-per-year airport is being 'almost doubled'⁷⁰ suggests that expansion is the main aim, with safety appearing to be only one component.

The fact that little progress is being made in the progressive areas of the White Paper can largely be attributed to the fact that comparatively little

effort or financing has been put into making them work and infrastructure and competitiveness have been privileged above environmental and health concerns. **The EIB must bear its share of the responsibility for this** and develop a transport lending strategy that places the environmental and health aspects of the White Paper at the fore.

⁷⁰ EIB Press Release: EUR 500 million for the expansion of the Beijing International Airport (China), 06/09/2005, <http://www.eib.org/news/press/press.asp?press=2979>



5. EIB transport investments: impact on climate change

Transport deserves a prominent place in every piece of EU climate change policy and legislation, as in 2004 it was responsible for 29.8% of the EU-15's CO₂ emissions⁷¹, and it is one of the few sectors in which CO₂ emissions have risen rapidly since 1990.

Thus *the ability of the EU to bring its CO₂ emissions under control largely depends on its ability to curb the growth of emissions from transport.*

Although the EU has not yet taken adequate legislative action to address this issue, particularly in the area of transport pricing, the aforementioned provisions in the 6th EAP and the 2001 Transport White Paper provide a useful basis for tackling CO₂ emissions from transport, and the EIB should use such policies as a basis for developing a transport strategy which leads to reductions – not increases – in greenhouse gases from the transport sector.

The EIB's statement on climate change is weak regarding transport. The only steps outlined in relation to transport are:

- Stepping up lending for energy efficiency projects such as more fuel efficient cars and public transport systems
- Stepping up investment into innovations such as the introduction and manufacture of climate-friendly engine technology and fuel cells

- Maintaining lending for sustainable transport (public transport systems, rail, etc.)⁷²

The EIB states that all projects are screened for their potential to contribute significantly to the climate change policy objective, including projects that generate carbon credits or energy efficiency or renewable energy projects.⁷³ However, it appears that those which do not contribute are rarely, if ever, rejected, implying that contributing to GHG reduction is an optional extra, rather than something that all projects must do.

More promisingly, the EIB states that the environmental externality costs related to greenhouse gas (GHG) emissions (in particular CO₂) are systematically included in the economic analysis of projects.⁷⁴ Yet without examining the calculation system in depth, it is impossible to assess its scope and efficacy, but the project case studies shown below (which are not exceptional) invite scepticism about the range of external costs which are included in this analysis.

Financing token solutions: The EIB's statute requires that it should finance projects for which adequate funds would *not* otherwise be available, and its Eligibility Guidelines require that it adds value to projects. This indicates that the EIB should take a

⁷¹ Estimated from European Environment Agency: Annual European Community greenhouse gas inventory 1990–2004 and inventory report 2006 - Submission to the UNFCCC Secretariat, 7th June 2006, including international aviation and maritime transport. See Table 3, Appendix 1 in Climate Change Section of this report for further details.

⁷² EIB: Climate Change, July 2002, p. 3-4, www.eib.org/publications

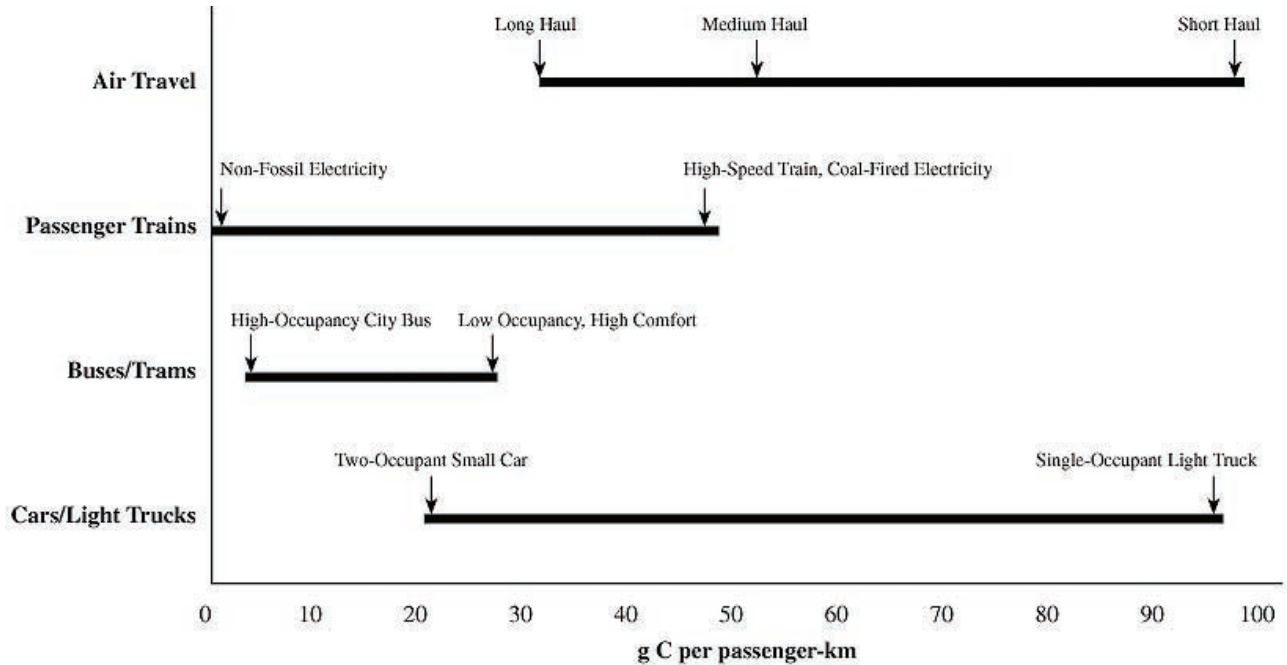
⁷³ EIB response to Bankwatch information request, Luxembourg 10th December 2006

⁷⁴ EIB response to Bankwatch information request, Luxembourg 10th December 2006

Impacts on climate change

Without any commitments to avoid financing climate-destructive industries, the EIB's more climate-friendly investments will remain a drop in the ocean.

Figure 10: Comparative Carbon Emissions, Aviation and the Global Atmosphere", Inter-Governmental Panel on Climate Change (IPCC), 1999. Figures based on typical seat occupancy rates.



lead in financing innovative projects, which may not be profit-oriented enough to interest other lenders, but which play a part in implementing progressive EU policies.

The statement above shows that the EIB is indeed interested in such projects, however their impact is severely reduced or eliminated by the bank's equal or greater financing of climate-damaging projects such as motorway and airport expansion.

But still financing the problem: The EIB states that because of environmental externalities related to GHG emissions, "some of these projects may not pass the economic test and thus would not be financed by the Bank."⁷⁵ However, given the climate-damaging projects which have been financed by the EIB – such as airport expansions – **it is difficult to imagine a project which the EIB would refuse to finance due to its climate impact.**

5.1 Air transport

Although aviation may seem to be responsible for a relatively small proportion of the EU's CO₂ emissions – 3.6% for domestic and international aviation combined – CO₂ emissions from the EU 15's international aviation increased by 86% between 1990 and 2004⁷⁶ – much more than any other sector. Other studies have estimated that because of various effects caused by aviation emissions being released high up in the atmosphere, the contribution of aviation to climate change is currently 4-9% at the global level and 5-12% in the EU.⁷⁷

The graph compares the carbon emissions of various modes of passenger transport per passenger kilometre. The EIB has used this graph to argue that: "The argument against air travel on environmental grounds is not clear-cut. It compares well with other modes on long haul, less well on short-haul."⁷⁸

⁷⁵ EIB response to Bankwatch information request, Luxembourg 10th December 2006

⁷⁶ Excluding LULUCF. European Environment Agency: Annual European Community greenhouse gas inventory 1990–2004 and inventory report 2006 - Submission to the UNFCCC Secretariat, 7th June 2006, p.223

⁷⁷ Transport & Environment: Clearing the Air: The Myth and Reality of Aviation and Climate Change, 2006, p.6, http://www.transportenvironment.org/docs/Publications/2006/2006-06_aviation_clearing_the_air_myths_reality.pdf

⁷⁸ EIB Operations Evaluation department: Evaluation of EIB Financing of Airlines, March 2004, p.9-10

⁷⁹ Brendan Sewill: Fly Now, Grieve Later, Aviation Environment Federation, June 2005, p.6

⁸⁰ Calculated from K. Klein Goldewijk et al.: GHG emissions in the Netherlands 1990-2003, National Inventory report 2005, RIVM report 773201009, 2005, Table A.7.1 p. A-45/46, A.7.6 p. A-54/55, www.rivm.nl/bibliotheek/rapporten/773201009.pdf

This is a false comparison as it is rather rare for people to drive between continents in a single-occupant light truck or go on a high-speed train, so it is only for short and medium-haul that the comparison really matters, and it also misses the point that long-

haul flights will still release more CO₂ than shorter journeys because each passenger is traveling much further, so demand for such journeys needs to be addressed.

Airport project	Capacity before expansion	Extra capacity (passengers per year)	Additional CO ₂ if capacity used ⁸²	Percentage increase in airport's CO ₂ emissions
Schiphol 5 th Runway	45 million	13 million ⁸³	2 869 750 tonnes per year	32.5%
Warsaw Airport new passenger terminal	3.5 million	6.5 million ⁸⁴	1 690 000 tonnes per year	185.7%
Prague Airport new passenger terminal	6.5 million	3.5 million ⁸⁵	910 000 tonnes per year	53.8%
Cork Airport new passenger terminal	2.18 million	3 million ⁸⁶	780 000 tonnes per year	137.6%
Beijing International Airport 3 rd runway and new terminal	35 million	'almost double' ⁸⁷ (additional 30 million assumed)	7 800 000 tonnes per year	85.7%
Heathrow 5 th Terminal	60 million	30 million ⁸⁸	9 000 000 tonnes per year	50%
Paris Roissy-Charles de Gaulle 3 rd runway	30 million	25 million ⁸⁹	6 500 000 tonnes per year	83.3%
Munich Terminal 2	20 million	25 million ⁹⁰	6 500 000 tonnes per year	125%
Madrid Barajas Terminal 4	42 million ⁹¹	35 million ⁹²	9 100 000 tonnes per year	83.3%

⁸¹ Sausen et al., 2005, Aviation Radiative Forcing in 2000: An Update of IPCC (1999), Sausen, R., Isaksen, I., Grewe, V., Lee, D.S., Myhre, G., Schumann, U., Stordal, F. and Zerefos, C., June 2005

⁸² Please note that these are theoretical estimates because they have been calculated by taking the average figures for the UK and Netherlands shown in the text on page 30. The mean average of these two figures has been used as an estimate for other countries for which the average figures are not known.

⁸³ See text box below for references

⁸⁴ EIB Press Release: Poland: EIB Finances Warsaw Airport Expansion, 23/12/2002, <http://www.eib.org/news/press/press.asp?press=2590>

⁸⁵ EIB Press Release: Czech Republic: EIB Lends CZK 9 billion for Extension of Prague Airport, 10/04/2003, <http://www.eib.org/news/press/press.asp?press=2627>

⁸⁶ EIB Press Release: Ireland: Aer Rianta signs EUR 115 million loan facility with European Investment Bank to underpin development at Cork Airport, 14/11/03, <http://www.eib.org/news/press/press.asp?press=2711>. In this case 2.18 million refers to actual passenger numbers in 2003 rather than the capacity.

⁸⁷ EIB Press Release: EUR 500 million for the expansion of the Beijing International Airport (China), 06/09/2005, <http://www.eib.org/news/press/press.asp?press=2979>

⁸⁸ Heathrow Airport: www.heathrowairport.com: T5: Fascinating Facts, viewed 8th October 2006

⁸⁹ EIB Press Release: "France: FRF 500 million loan from the EIB for Roissy-Charles de Gaulle airport in Paris", 30/06/98, <http://www.eib.eu.int/news/press/press.asp?press=1574&style=printable>

⁹⁰ Munich Airport International Website: General Information <http://www.munich-airport.de/EN/Areas/Company/Daten/Allgemein/index.html>, viewed 23rd October 2006

⁹¹ Passenger numbers in 2005 rather than theoretical capacity

⁹² Richard Rogers Partnership (Architects) website: <http://www.richardrogers.co.uk/render.aspx?siteID=1&navIDs=1,4,24,296,1035>, viewed 13th December 2006

Despite the EIB's unwarranted defence of air travel the graph clearly shows that overall, per passenger kilometre, aviation and car travel are the most climate-damaging modes of transport.

5.1.1 Airport expansion projects:

Based on UK government figures, economist Brendan Sewill has calculated that **each passenger taking off from UK airports is responsible for 300 kg of CO₂ emissions**⁹⁹. Calculations made for this report indicate that the 2003-2004 average for the Netherlands is 220.75 kg⁸⁰, but it has not been possible to calculate figures for other countries where the EIB has financed airport expansion. The estimates are of particular concern because total GHG impacts from aviation have been estimated to be between 2-5 times greater than that of the CO₂ emissions alone, due to NO_x emissions, contrails and cirrus clouds⁸¹. The EIB may object that the benefits of increased efficiency and point-to-point flights have brought environmental benefits, but as the bank has not tried to quantify these it has no reason to be sure that they will materialise.

For comparison, **the total likely CO₂ emissions from the EIB's above selected airport expansion projects, if the new capacity is fully used (45.15 mt), is:**

- **More than the three most climate-damaging power stations in Europe**⁹³ combined,
- **More than New Zealand, Switzerland, Ireland, Norway or Slovakia's total CO₂ emissions for 2003 (34.7/44.72/44.45/43.22/43.05 mt)**

- **More than Lithuania, Estonia and Latvia's 2003 CO₂ emissions added together (12.29 mt + 19.11 mt + 7.43 mt)**
- **Nearly double Croatia's total CO₂ emissions for 2003 (23 mt)**⁹⁴

Schiphol Airport 5th Runway, Amsterdam⁹⁵

In 2002 the EIB approved a EUR 150 million loan for the construction of a fifth runway and taxiways at Schiphol Airport, in spite of the airport's large – and growing – contribution to Dutch CO₂ emissions (around **3.79 per cent of the Netherlands' total annual emissions in 2003**, compared to 2.05 per cent in 1990, with a more than 100% absolute increase⁹⁶.) The project cost EUR 382 m⁹⁷ and increased the airport's capacity from 45 million passengers in 2001 to 58 million in 2005.⁹⁸ If this capacity is to be fully used, and extrapolating from the CO₂ emissions per passenger for 2002 and 2003, **the extra 13 million passengers will be responsible for around 2 869 750 tonnes of new CO₂ emissions per year – an increase of 32.5% compared to the airport's estimated 2003 emissions.**⁹⁹

Climate change considerations barely featured in the project development process and, remarkably, the EIB approved a loan before the full EIA process – assessing the effects of the whole airport rather than just the new runway – was even completed.¹⁰⁰

The EIB claimed that the project would “help consolidate the airport's position as one of Europe's major hub airports” and “enhance its importance for

⁹³ 2004 figures from the European Pollutant Emission Register <http://eper.cec.eu.int> for the Agios Dimitrios (Greece), Frimmersdorf (Germany), and Abono (Spain) coal power stations. In 2005 WWF carried out a study to ascertain which of Europe's power stations are the most climate-damaging per kilowatt hour of electricity produced. For more information see “Dirty Thirty: WWF names Europe's dirtiest power stations”, 04.10.2005, http://www.panda.org/about_wwf/what_we_do/climate_change/solutions/campaigns/powerswitch/index.cfm?uNewsID=23411

⁹⁴ Excluding international shipping and aviation, excluding Land Use, Land Use Change and Forestry. UNFCCC: Key GHG Data, Greenhouse Gas Emissions Data for 1990 – 2003 submitted to the United Nations Framework Convention on Climate Change, 2005 p.30

⁹⁵ For more information see CEE Bankwatch Network, FoEI, Hacan Clearskies, Milieudéfense, Za Zemiata: “Flying with Big Business: The European Investment Bank & The Aviation Industry” November 2003, www.bankwatch.org > Publications > 2003

⁹⁶ Estimated from K. Klein Goldewijk et al: Netherlands National Inventory Report 2005, RIVM report No. 773201009, p. A-45 - A-55 and 3-27, www.rivm.nl

⁹⁷ EIB website: Amsterdam Schiphol Airport, 20.05.2002, viewed 28th October 2006, <http://www.eib.org/news/news.asp?news=39&listing=1&page=2>

⁹⁸ Amsterdam Airport Schiphol: Facts and Figures, www.schipholgroup.com, viewed on 26th September 2006

⁹⁹ Estimated from K. Klein Goldewijk et al: Netherlands National Inventory Report 2005, RIVM report No. 773201009, p. A-45 - A-55 and 3-27, www.rivm.nl

¹⁰⁰ CEE Bankwatch Network, FoEI, Hacan Clearskies, Milieudéfense, Za Zemiata: “Flying with Big Business: The European Investment Bank & The Aviation Industry” November 2003, www.bankwatch.org > Publications > 2003

¹⁰¹ EIB website: Amsterdam Schiphol Airport, 20.05.2002, viewed 28th October 2006, <http://www.eib.org/news/news.asp?news=39&listing=1&page=2>

¹⁰² Amsterdam Airport Schiphol: Statistical Annual Review 2005, www.schipholgroup.com



the Dutch economy". It was admitted that the runway would "contribute in absolute terms to an increase of air traffic volume" but this was supposed to be mitigated by better distribution of the noise burden.¹⁰¹

The claims in favour of the airport expansion made by the EIB and the project promoter were rather flimsy. No evidence has been given as to how consolidating Schiphol's position as a hub airport would benefit the EU as a whole; indeed the main hub airports are only in competition with each other. Schiphol's contribution to the Dutch economy is likewise highly debatable – 42.3 percent of Schiphol passengers are transfer passengers¹⁰², meaning that only the airport and airlines are benefiting from them, while local people have to put up with the resulting noise and pollution.

The EIB's use of public money to finance this project is particularly questionable since it is likely that funding could have been found from other sources. Although it can be claimed that the EIB was following EU policy in the sense that Schiphol is part of the TEN-T network, the project runs contrary to many other aspects of EU policy, including the 6th EAP and Transport White Paper. Rather than limiting transport demand, promoting a shift to railways, and internalising the external costs of transport, the EIB has supported the status quo and encouraged the growth of aviation and its inevitable emissions.

For more information, see "Flying with Big Business: The European Investment Bank & The Aviation Industry" by CEE Bankwatch Network, FoEI, Hacan Clearskies, Milieudéfense, Za Zemiata, available at: www.bankwatch.org > publications > 2003

London Heathrow Airport Terminal 5, UK.

In 2001, after the longest public inquiry in British history (46 months) the highly controversial 5th Terminal for Heathrow Airport was approved by the British Secretary of State, and is due to open in 2008. BAA, the airport's owner, claims that Terminal 5 and its associated facilities are funded by BAA, not the taxpayer.¹⁰³ However this is open to interpretation as in 2002 the EIB approved a EUR 390 million loan for the terminal, the total cost of which is GBP 4.2 billion (EUR 6.2 billion)¹⁰⁴.

The development was fought by HACAN ClearSkies, a group representing residents under the flight paths and around the airport, as well as national environmental organisations, on the grounds that it would result in a massive increase in flights from the airport, thus increasing noise, pollution and CO₂ emissions.¹⁰⁵ With four terminals at Heathrow already, is it estimated that noise already affects around half a million people.¹⁰⁶

BAA claimed that the additional 30 million passengers per year would result in an increase of only

¹⁰³ Heathrow Airport Website: Fascinating Facts fact sheet: www.heathrowairport.com >About BAA Heathrow> Heathrow Low-down> Terminal 5> Learn more about the Terminal 5 project>T5 fact sheets, viewed 26.11.2006

¹⁰⁴ Heathrow Airport Website: www.heathrowairport.com >About BAA Heathrow> Heathrow Low-down> Terminal 5, viewed 03.09.2006

¹⁰⁵ HACAN: Opening Statement to the Public Inquiry into a Fifth Terminal at Heathrow by the Chairman of HACAN, Dermot Cox, Tuesday 16th May 1995, http://www.hacan.org.uk/resources/consultation_responses.php

¹⁰⁶ HACAN: Opening Statement to the Public Inquiry into a Fifth Terminal at Heathrow by the Chairman of HACAN, Dermot Cox, Tuesday 16th May 1995, http://www.hacan.org.uk/resources/consultation_responses.php

¹⁰⁷ HACAN: Opening Statement to the Public Inquiry into a Fifth Terminal at Heathrow by the Chairman of HACAN, Dermot Cox, Tuesday 16th May 1995, http://www.hacan.org.uk/resources/consultation_responses.php

Impacts on climate change

lost in transportation

36 000 flights compared with the 4-terminal airport, but residents were sceptical, having been previously let down many times before: previous caps on flight numbers had been set and then abolished, and forecasts of increases in passengers per aircraft had failed to materialise. HACAN ClearSkies instead predicted that Terminal 5 would lead to total congestion of the existing runways and provide a pretext for increasing night flights, ending runway alternation and noise preferential routes, and would ultimately lead to the construction of a third runway.¹⁰⁷ Their fears have already proved to be justified as the government has since made attempts to increase night flights and end runway alternation, and is carrying out research on the feasibility of constructing a third runway, thus opening the way for a massive increase in flights.

Even before the completion of the new terminal, the EU limits set by Directives 96/62/EC and 1999/30/EC for the annual mean concentration of nitrogen dioxide are being exceeded at the airport and in some nearby residential areas.¹⁰⁸

The increase in CO₂ emissions resulting from the 30 million extra passengers and unknown number of extra flights is a major problem with the Terminal project. We have seen above that the new terminal is likely to result in an extra 9 000 000 tonnes of CO₂ per year, even without taking into account non-CO₂ greenhouse gases and the increased impacts of high-altitude emissions.

These issues highlight the inadequacy of the EIB's project assessment procedure with regard to climate change and ensuring coherence with EU transport policy. Although the majority of the planning for the terminal was carried out before the 2001 White Paper was published, the EIB approved its loan afterwards, and should have taken the Paper's aims into account. The involvement of the EIB in the expansion is particularly of concern as HACAN ClearSkies has

found that 100 000 flights a year from Heathrow fly to destinations which already have a good rail connection to London, such as Paris, Edinburgh, Brussels and Manchester.¹⁰⁹ Thus it is not only the White Paper's goal of decoupling transport growth and GDP growth which has not been followed but also the goal of improving the modal share of rail.

For more information see HACAN Clearskies website: www.hacan.org.uk

5.1.2 Airline expansion projects

It is not possible at this stage to quantify the impact of the EIB's lending to airlines for the modernisation and expansion of their fleets because none of the airlines concerned have replied to information requests on the projects carried out with the EIB's support. It is therefore not clear to what extent the new aircraft replaced ones which were going out of service or being sold, and to which extent they represented an expansion of the fleets concerned.

In the EIB's evaluation of its airline projects from 1990-2001, the EIB stated that *"...as all except one of the projects were for replacement aircraft, the environmental objectives of lower emissions and greater fuel economy have been achieved."*¹¹⁰ This statement is rather simplistic and optimistic and ignores some important climate impacts:

- Even if there is no expansion involved, **there may still be an overall increase in CO₂ emissions due to the project because old planes may be sold to other countries** where they may continue to be used for several years
- **Manufacturing new aircraft uses a considerable quantity of resources and produces a considerable amount of CO₂ emissions.** In 2003, Airbus,

¹⁰⁸ Aviation Environment Federation: Emissions Impossible: An assessment of the noise and air pollution problems at Heathrow airport and the measures proposed to tackle them, February 2006, p.4

¹⁰⁹ HACAN ClearSkies: "Short-Haul Flights: Clogging up Heathrow's Runways" November 2006, www.hacan.org.uk

¹¹⁰ EIB Operations Evaluation department: Evaluation of EIB Financing of Airlines, March 2004, p.2

¹¹¹ Airbus: The Airbus Way: Environment (Airbus Environmental Report) 2004, <http://www.airbus.com/en/corporate/ethics/environment/>

¹¹² Peeters P.M., Middel, J. and Hoolhorst, A., NLR 2005, Fuel efficiency of commercial aircraft, an overview of historical and future trends, NLR (Dutch National Aerospace Laboratory), November 2005



whose planes were purchased in several EIB projects, reported 199 606 tonnes of direct CO₂ emissions from fossil fuel combustion – 3.5 tonnes per seat.¹¹¹

- **Any improvement in efficiency must be compared with any rise in the number of flights** caused by the same or other EIB projects.
- Research undertaken by the Dutch National Aerospace Laboratory in 2005 showed that although jet planes have increased in efficiency since they were introduced, **claims about the degree of increased efficiency have been exaggerated** and also fail to take into account that the **pre-jet planes of the early 1950s were as fuel-efficient as today's aircraft.**¹¹² This calls into question the degree to which new planes help to reduce emissions.

Such factors need to be taken into account and thorough calculations made instead of simply assuming that projects lead to positive climate impacts.

5.2 Road transport

The EIB lent approximately EUR 37 381.4 million for roads between 1996 and 2005, of which EUR 26 508 million was for (mostly new or highly expanded) motorways. It also lent EUR 8 947 million to the car manufacturing and tyre industries, representing further support for road transport. **Road transport alone counted for 21.3% of the EU 15's CO₂ emissions in 2004**¹¹³.

While some of the traffic using new roads is simply moving from more congested roads, **the phenomenon of 'induced traffic', identified in the UK 1994 SACTRA study**¹¹⁴, means that **constructing new roads directly leads to an increase in CO₂ emissions**, as more people choose to use road transport because of the new capacity available.

In the case of toll roads with direct tolls, high traffic levels – and therefore CO₂ emissions – are actually needed to recover the money spent on building the road, thus removing any incentives for traffic reduction measures.

As stated above, in 2002 the EIB said that it was beginning to quantify climate impacts of appropriate projects. However, it is not known whether this is being carried out for road projects, and if so, whether it is having any impact on the bank's decisions to finance projects.

Vienna-Mikulov-Brno motorway (A5 motorway Austria/R52 high-speed road Czech Republic)

In August 2005 the EIB approved a loan of up to EUR 350 million for the Ostregion Autobahn section of the highly controversial A5 motorway in Austria, which would connect with the R52 high speed road in the Czech Republic to form the Vienna-Mikulov-Brno motorway. The loan has not yet been disbursed as there are ongoing legal cases against the motorway project in both the Czech Republic and Austria. In addition the EIB has approved a loan for the Czech section of the D1, in which a technical study for the controversial R52 is also included.¹¹⁵ The European Commission has suggested to the EIB that it should suspend financing for the part of the project relating to the technical study for the R52.¹¹⁶

Critics of the project argue that the A5 is unnecessary, a point backed up by a standard economic analysis, and that the alternatives have not been seriously examined. This is likely to lead to overcapacity in the coming years.

¹¹³ Including international aviation and shipping. Excluding LULUCF. Estimated from European Environment Agency: Annual European Community greenhouse gas inventory 1990–2004 and inventory report 2006 - Submission to the UNFCCC Secretariat, 7th June 2006, p.160ff.

¹¹⁴ SACTRA (Standing advisory committee on trunk road assessment): "Trunk Roads and generation of traffic", HMSO, 1994

¹¹⁵ EIB website: <http://www.eib.org/projects/pipeline/project.asp?pipe=1566>, accessed 12.01.2007

¹¹⁶ Letter from DG Environment, 19th January 2007, ENV D3/MN/jv D(2007)970

Impacts on climate change

lost in transportation

Debate on the matter has been complicated by the fact that the A5 and its link roads have been subject to six different EIA proceedings although, for example, the A5 south, S1 West and East and S2 were subject to only one public procurement proceeding, clearly indicating that this is one project. The splitting up of major infrastructure projects into smaller sections for EIA purposes (“salami-slicing”) is a common tactic which serves to downplay environmental impacts and allow the construction of the least controversial sections, thereby buying time and creating political pressure for the completion of the whole project.

Critics believe that the A5 would create a bottleneck in Vienna because there is no more capacity on the only link road towards the south.

The cost-benefit analysis for the project seems to be faulty and unrealistic, as the documents say that with the A5 there would be fewer traffic kilometres per person per day than without the A5 in the region. The Austrian Ministry of the Environment also pointed out this inconsistency and stated in its official comments for the respective EIA proceeding that the A5 would lead to an additional 40 000 tonnes of greenhouse

gas emissions as well as an additional 115 tonnes of NO_x every year.¹¹⁷ Considering that Austria’s GHG emissions rose by around 15.2 per cent between 1990 and 2004,¹¹⁸ and that its GHG emissions from road transport rose by 88 per cent in the same period,¹¹⁹ any further increases, particularly in this sector, are a matter of serious concern.

The project is a prime example of poor strategic transport planning and failure to take climate change objectives into account in transport development. The fact that it has been able to get to the approval stage in the EIB amply demonstrates that the bank’s policies are insufficient to verify that transport projects are well-justified and that they will not entail an excessive burden of GHG emissions.

For further information on the case, see the letter sent to EIB President Maystadt regarding the loan for the A5 motorway by Global 2000, CEE Bankwatch Network, Environmental Law Service and Greenpeace (October 4, 2006) <http://www.bankwatch.org/newsroom/documents.shtml>

For more information on EU CO₂ emissions from transport see Table 3 below.

¹¹⁷ Ministry of Agriculture, Forestry, the Environment and Water Management of the Republic of Austria: Letter to the Federal Ministry for Transport, Innovation and Technology, 18th July 2006, p. 4

¹¹⁸ European Environment Agency: Annual European Community greenhouse gas inventory 1990–2004 and inventory report 2006 - Submission to the UNFCCC Secretariat, 7th June 2006, p.14

¹¹⁹ European Environment Agency: Annual European Community greenhouse gas inventory 1990–2004 and inventory report 2006 -



6. The EIB's corporate subsidies

Why may an EIB loan count as a subsidy?

The EIB's loans are somewhat different from those from commercial banks:

- Although giving loans rather than grants, the **EIB is using public money** to enable projects to happen.¹²⁰
- It offers '**fine**' (ie. **low**) **interest rates**. It is able to do this because it is non-profit-making and charges only to cover its own borrowing costs plus the costs of administration.¹²¹
- The EIB's involvement brings political clout and **encourages other commercial banks** to get involved.
- At least according to the EIB's statute, the **projects could not otherwise happen** if the bank did not finance them. This is not always the case in reality but where it is the case, the EIB's investment of public money is the deciding factor in whether the project can proceed, therefore representing the intervention of public money in the market.
- It offers **long repayment periods** of up to 30 years and longer in certain cases.¹²²
- The EIB normally charges low or no commitment fees or non-utilisation fees, though fees for a project's appraisal and required legal services may be applicable in certain cases.¹²³

The exact amounts of money saved by having an EIB loan cannot be easily quantified, particularly as the bank should not finance projects which could have borrowed the full project costs from other sources. However, the principle of using public money is more important than the actual amount saved. **If public money is used, the project should be beneficial to a wide section of the general public, and should safeguard common interests such as health and environmental protection.** Unfortunately this is often not the case with the EIB's transport investments, which are subsidising sectors with harmful impacts.

6.1 Air transport

It is widely recognised in the EU that flying has high external costs, particularly in terms of climate impact, and that it is even further away than other modes from paying those costs. Brendan Sewill has calculated that because of the lack of VAT on air tickets, lack of fuel tax, duty free allowances, and the low level of Air Passenger Duty, **there is an annual subsidy of GBP 9.2 billion (EUR 13.7 billion) for the air industry in the UK,**¹²⁴ while T&E, a European NGO specialising in transport and environmental issues,

¹²⁰ EIB financing can be considered public money because EU Member States provide capital and make decisions in the Bank. The EIB has an [borrower/dynamic.asp?cat=33](http://www.eib.eu.int/borrower/dynamic.asp?cat=33).

¹²¹ EIB website: <http://www.eib.eu.int/faq/faq.asp?faq=366>, viewed 17th November 2006

¹²² www.eib.org > About EIB > Objectives > Development of Trans-European and Access Networks > Added Value, viewed 8th September 2006

¹²³ EIB response to Bankwatch information request, Luxembourg 10th December 2006

¹²⁴ Brendan Sewill: "The Hidden Cost of Flying", Aviation Environment Federation, February 2003

has calculated that **aviation's exemption from fuel taxes is worth around EUR 35 billion per year in the EU based on the level of road tax.**¹²⁵

Yet against this background, as we have seen, the EIB is financing the expansion of the air industry, with airport companies, airline companies and aircraft manufacturers all benefiting from public money.

6.1.1 Airport companies

The EIB has provided loans extensively to airport companies for the construction and modernisation of infrastructure. Although many airport companies are at least partly owned by governments or local authorities, private companies have also benefited from these investments, most notably the privately owned BAA, the British airport operator taken over by Grupo Ferrovial SA in 2006.

BAA

Between 1996 and 2005 the EIB lent BAA over a billion euros¹²⁶ of public money for airport expansion and modernisation projects as well as one rail project, the "Heathrow Express", running from London to the airport. As well as the negative impacts caused by some of the projects, it is hard to justify the lending of public money at favourable rates to a huge company such as BAA, which holds a monopoly on the London airports. Since 2002 the company's annual pre-tax profits have ranged between GBP 524 million (EUR 781.6 million - 2002/3)¹²⁷ and GBP 637 million (EUR 950 million - 2004/5),¹²⁸ so the company should be able to mobilise sufficient resources for its infrastructure projects without recourse to public money.

Hochtief: Athens International Airport

Hochtief Airport, the airport arm of German construction company Hochtief, has benefited from EIB loans through its part-ownership of Hamburg, Dusseldorf and especially Athens airports. The construction of Athens airport was supported with almost EUR 1 billion by the EIB,¹²⁹ yet the project was the subject of complaints and questions from the start. The tender process was heavily criticised by French company Dumez, which was a member of the losing consortium¹³⁰, and questions have been raised by MEPs about the actual construction costs compared to the total project costs, as well as the fact that the EC decided to classify the airport company as a public authority in order to make it eligible for cohesion funding, which is allegedly against Cohesion Fund rules and EU law.¹³¹

Hochtief Airport now has the right to run the airport for 30 years, bringing virtually guaranteed profit to the company. The management of the airport has been criticised by the IATA, which states that service at the airport is good but that it comes at too high a price, with the regulated target rate of return of 15% ensuring monopoly profits for the airport operator at the expense of its captive customer base. There is no independent economic regulator, nor any direct incentive-based price caps, so there are no incentives for improving efficiency, and if monopoly profits are not made in one year charges may be raised in order to recoup shortfalls.¹³² The case raises serious questions about the value for money of the new airport project, and shows that the EIB's processes for evaluating the efficiency of its investments need to be seriously improved.

¹²⁵ Transport & Environment: Clearing the Air: The Myth and Reality of Aviation and Climate Change, 2006, p.12, http://www.transportenvironment.org/docs/Publications/2006/2006-06_aviation_clearing_the_air_myths_reality.pdf

¹²⁶ EIB website: <http://www.eib.org/projects/loans/regions/CountryList.asp?listing=1&Region=4&Country=93&Sector=4>, viewed 5th November 2006

¹²⁷ BAA Press Release: BAA results for the year to 31 March 2003, 03.06.2003, <http://www.baa.co.uk> > media centre > news releases

¹²⁸ BAA Press Release: BAA results for the year ended March 2005, 17.05.2005, <http://www.baa.co.uk> > media centre > news releases

¹²⁹ EIB Website: <http://www.eib.org/projects/loans/sectors/list.asp?listing=1&submitted=4&page=&lc=1&SignatureStart=-1&Region=4&Country=104&SignatureEnd=-1>, viewed 6th November 2006

¹³⁰ See summary of Dumez v. Commission of the European Communities: Refusal by the Commission to initiate Treaty infringement proceedings, Case T-126/95, 13th November 1995, http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexplus!prod!CELEXnumdoc&lg=en&numdoc=61995B0126

¹³¹ Christopher Booker: "Billions vanished in this airport" The Telegraph, 14.03.2004, <http://www.telegraph.co.uk/news/main.jhtml?xml=/news/2004/03/14/nbook14.xml&sSheet=/news/2004/03/14/ixhome.html>

6.1.2 Airlines

Airlines have benefited from EIB loans for the purchase of new aircraft to either replace or expand their fleets. Given the structure of the industry, which has until recently been dominated by large state-owned or privatised airlines, it is mostly these companies which have benefited: **British Airways received EUR 909.5 million between 1996 and 2005¹³³ and Iberia Airlines received EUR 1.057 billion**, or EUR 1.137 billion if its regional franchise-holder Air Nostrum is included.¹³⁴ In 2005 however, the EIB provided a loan to the low-cost airline *easyJet* EUR 98.6 million,¹³⁵ potentially paving the way for more loans to low-cost carriers.

Loans to low-cost airlines are particularly controversial as they are seen as the most obvious example of an industry that is not paying its external costs and is encouraging people to fly more. While the EU's efforts to internalise the external costs of flying have proceeded rather slowly, this has nevertheless been an EU policy objective since the publication of the 2001 White Paper on Transport. The EU's aim of liberalising air services has unfortunately proceeded faster, meaning that low-cost airlines have been able to expand rapidly without the necessary policies in place to ensure payment of their external costs. In such situations where EU policies either conflict or have been developed in an insufficiently synchronised way, the EIB needs to take a precautionary stance, refusing to finance projects which adhere to one policy and contradict others.

The EIB's justifications for loans to airlines are environmental improvements through the increased efficiency of new aircraft, regional development, increasing international competitiveness, and increasing competition (within the EU).¹³⁶ As shown above, the first of these arguments relies more on assertions than evidence. There is a built-in conflict between trying to achieve environmental aims by purchasing



more efficient aircraft and financing other projects to expand airline fleets and increase competition in the sector. **Expansion and increased competition necessarily lead to an overall increase in the number of flights, which overshadows the improvements made by increased efficiency.** However the EIB's project-by-project analysis and evaluation is not likely to identify such cumulative impacts. Having sectoral policies and actively seeking to finance projects that would fulfil those policies would help the EIB to address such contradictions.

Whilst the aims related to international and intra-EU competition are likely to be served by the projects, **in most of the projects EIB financing was not necessary to achieve this.** The bank's evaluation of airline projects from 1990-2001 stated that although two projects outside of the EU could only have been financed at a significantly higher cost, the other eight projects examined could also have been financed by commercial banks, as the majority of their capital investments were.¹³⁷ **The Bank again contravened Article 18 of its statute by lending for these projects.**

easyJet:

In 2005 the EIB provided a EUR 98.6 million loan to low-cost airline *easyJet* to expand its fleet by buying up to 42 new Airbus aircraft,¹³⁸ enabling both the airline and the aircraft manufacturer to benefit from public money. Given that in 2004-5 *easyJet*'s pre-tax

¹³² Brian Pearce, Chief Economist IATA: IATA Economics Briefing: Airport Privatisation, IATA, 04.07.2005. p.12

¹³³ EIB website: <http://www.eib.org/projects/loans/regions/CountryList.asp?listing=1&Region=4&Country=93&Sector=4>, viewed 4th November 2006

¹³⁴ EIB website: <http://www.eib.org/projects/loans/regions/CountryList.asp?listing=1&Region=4&Country=83&Sector=4>, viewed 7th November 2006

¹³⁵ EIB website: <http://www.eib.org/projects/loans/regions/CountryList.asp?listing=1&Region=4&Country=93>, viewed 6th November

¹³⁶ EIB Operations Evaluation department: Evaluation of EIB Financing of Airlines, March 2004, p.12

¹³⁷ EIB Operations Evaluation department: Evaluation of EIB Financing of Airlines, March 2004, p.20-21

¹³⁸ EIB website: <http://www.eib.org/projects/loans/regions/CountryList.asp?listing=1&Region=4&Country=93>, viewed 6th November 2006

profit was GBP 67.9 million (EUR 101 million),¹³⁹ it is hard to imagine that this investment could not have been financed from other sources such as commercial banks. The justifications given for the loan were 'regional development' and 'transport project of common interest'.¹⁴⁰ However, as outlined above, there is no inherent reason why regional development should result from the expansion of *easyJet*. Nor is it clear that the expansion of the airline is a project of interest to several EU Member States, as stipulated in Article 18 of the EIB'S statute: benefits will accrue to the small percentage of the population who use *easyJet*'s services, but mainly to the airline's shareholders, while taxpayers will continue to pay for the external costs of aviation.

6.1.3 Aircraft manufacturers

EADS/Airbus

The main recipient of EIB loans for aircraft manufacturing is Airbus, owned by EADS. It is seen as a quintessentially European company, with its headquarters in Toulouse, France, and facilities in France (around 17 000 employees¹⁴¹), Spain (around 3 000¹⁴²), the UK (around 9 500¹⁴³) and Germany (around 19 200¹⁴⁴).

Because of its European nature it has also become a symbol of European competition with the US and is currently the subject of a trade dispute at the World Trade Organisation, in which the US has complained that subsidies for the company are contrary to the *General Agreement on Trade and Tariffs* (GATT) 1994 and the *Agreement on Subsidies and Counter-*

vailing Measures (SCM Agreement). Between 1990 and 2001 57% of the EIB's lending for aircraft went for US Boeing aircraft,¹⁴⁵ but since then there has been a marked shift towards Airbus.

The US complaint¹⁴⁶ lists an array of different subsidies given to Airbus, among the most obvious being 'launch aid' - loans by individual states for design and development, which, as they are made on a non-commercial basis, offer low rates of interest and the possibility of being written off if the new project is not a success. The US complaint also covers EIB loans for the development of Airbus planes, though not loans given to airlines for the purchase of Airbuses.

In fact, apart from a massive EUR 700 million loan to EADS in 2002,¹⁴⁷ widely considered to have contributed to the development of the much overhyped A380, during the period 1996-2005 the EIB mainly gave money to Airbus via airline companies.

Loans totalling EUR 2 879.8 million were given to various airline companies for purchasing Airbus planes, and although it is unknown how much Airbus made as a result of these deals, a minimum of 112 Airbuses were purchased as a result of EIB loans between 1996 and 2005, representing huge support for the company.

Against this background of abundant corporate welfare, the question arises, why does a company with so few competitors need so much public money? Even more so, with so much state aid, why does it need financing from the EIB that is mandated only to provide loans when there is no other source available on reasonable terms? Even Airbus' former CEO,

¹⁴⁰ EIB Annual Report 2005, Statistical Section, p. 21

¹⁴¹ Airbus website: http://www.airbus.com/en/worldwide/airbus_in_france.html, viewed on 2nd November 2006

¹⁴² Airbus website: http://www.airbus.com/en/worldwide/airbus_in_spain.html, viewed on 2nd November 2006

¹⁴³ Airbus website: http://www.airbus.com/en/worldwide/airbus_in_uk.html, viewed on 2nd November 2006

¹⁴⁴ Airbus website: http://www.airbus.com/en/worldwide/airbus_in_germany.html, viewed on 2nd November 2006

¹⁴⁵ EIB Operations Evaluation department: Evaluation of EIB Financing of Airlines, March 2004, p.11

¹⁴⁶ World Trade Organisation: European Communities And Certain Member States – Measures Affecting Trade In Large Civil Aircraft: Request for the Establishment of a Panel by the United States, WT/DS316/6, 11th April 2006, http://www.wto.org/english/news_e/news06_e/dsb_9may06_e.htm

¹⁴⁷ EIB website: <http://www.eib.org/projects/loans/project.asp?loan=8537107>, viewed 2nd November 2006

¹⁴⁸ Dominic O'Connell: "Airbus boss lashes out over government export agency", Times Online, 18th July 2004

¹⁴⁹ Corporate Europe Observer: "Construction lobby demands infrastructure spending", Issue 0, October 1997, <http://www.corporateeurope.org/observer0/construction.html>. See also www.ert.be and www.fiec.org for position papers and reports.

¹⁵⁰ EIB website: <http://www.eib.org/projects/loans/regions/CountryList.asp?page=&Region=4&Country=93&listing=1&SignatureStart=1&Sector=4&SignatureEnd=-1>, viewed 15th November 2006

¹⁵¹ Hochtief website: http://www.hochtief.co.uk/projects/project_archive.htm, viewed 15.11.2006

¹⁵² EIB website: <http://www.eib.org/projects/loans/regions/CountryList.asp?listing=1&Region=4&Country=70&Sector=4>, viewed 4th November 2006

¹⁵³ Hochtief website: http://www.hochtief-construction.com/construction_en/1254.jhtml?pid=7492, viewed 19th October 2006

¹³⁹ EasyJet: Annual Report 2005, p.2 ¹³⁹ EasyJet: Annual Report 2005, p.2

Table 2: Hochtief's involvement in EIB transport projects

Project	EIB loan(s)	Hochtief involvement	Hochtief contract value, where known
Channel Tunnel Rail Link, UK	EUR 964.7 million ¹⁵⁰	Contracts 320, 342, 420	GBP 370 million (EUR 545.4 m) ¹⁵¹
Prague Ring Road	EUR 310 million ¹⁵²	Ring Road 514	> EUR 100 million ¹⁵³
Athens International Airport	EUR 999.3 million ¹⁵⁴	Hochtief Airport owns 40% airport shares ¹⁵⁵	-
Dusseldorf Airport	EUR 324.4 million ¹⁵⁶	Hochtief Airport owns 30% airport shares ¹⁵⁷	-
Hamburg Airport	EUR 220 million ¹⁵⁸	Hochtief Airport and Aer Rianta together hold 49% of airport shares ¹⁵⁹	-
Herrentunnel/Travequerung Lubeck	EUR 80 million ¹⁶⁰	Hochtief holds 50% of shares in the concession company ¹⁶¹	-
Elbetunnel 4 th tube, Hamburg	EUR 355.5 million ¹⁶²	Part of construction consortium, share unknown ¹⁶³	-
N4 Platinum Highway, South Africa	EUR 50 million ¹⁶⁴	Involvement through Concor – part-owned by Hochtief until 2005 ¹⁶⁵	-
Oresund Fixed Link	EUR 1.765 billion ¹⁶⁶	2 nd largest participant in Sundlink consortium with Skanska, Højgaard & Schultz and Monberg & Thorsen	EUR 844.8 million for the Sundlink consortium as a whole ¹⁶⁷
A2 Motorway, Poland	EUR 580 million ¹⁶⁸	Building bridges and viaducts ¹⁶⁹	-
Container Terminal Bremerhaven	wEUR 110 million ¹⁷⁰	Part of joint venture with Strabag, Bilfinger Berger and Rogge ¹⁷¹	-

Noel Forgeard, agrees that it doesn't: **“We do not need them [UK export credit guarantee agency] if they behave like a bank – there are plenty of banks that will finance our deals.”**¹⁴⁸

6.2 Construction companies

The construction sector as a whole has actively promoted TEN-T at the European level through the European Roundtable of Industrialists, FIEC (European Construction Industry Federation) and the now defunct European Centre for Infrastructure Studies (ECIS).¹⁴⁹ Although in any individual project there is

no way of knowing which companies will win contracts, overall the sector gains whenever any infrastructure is built - and the bigger the better.

Hochtief has been one of the main beneficiaries from projects financed by the EIB. It is not always possible to state that the EIB financed the exact part of the projects that Hochtief worked on, but it is indicative that the company, and others in its sector, are significantly benefiting from public money. In addition it should be noted that these are only projects from the transport sector and that construction companies also benefit from other kinds of EIB-financed projects.

It is particularly questionable to what extent public money should support the private profits of the construction industry considering that the sector has been prone to corruption scandals, for example the notorious Lesotho Highlands Water Project in which several European construction companies including ABB and the Highlands Water Venture consortium (including Hochtief, Bouygues, Kier and Stirling¹⁷²) have been accused of paying bribes to a Lesotho official,¹⁷³ and Lahmeyer International, Spie Batignolles/Schneider and Impregilo, as well as Acres International of Canada, have been convicted of doing so.¹⁷⁴ While Lahmeyer International has finally been barred from receiving World Bank funds for up to seven years due to being convicted¹⁷⁵, all of the companies involved remain free to benefit from EIB financing and are likely to do so (Lahmeyer International for example has been involved in at least seven projects financed by the EIB¹⁷⁶).

Strabag

Cash for contracts? Hungarian motorways

Austrian construction company Strabag has been involved in the construction of two Hungarian mo-

torways financed by the EIB: the east section of the M0 motorway, between M5 and road No 4, and the M35 motorway between Gorbehaza and Debrecen, as well as other motorways (M1, M5)¹⁷⁷. The company has also appeared prominently in the motorway construction scandals which have hit in Hungary in recent years.

In 2004, the Hungarian Competition Council fined several motorway construction companies, including Strabag, a total of around EUR 28 million because they had been consulting with each other and engaging in cartel behaviour during tender processes.¹⁷⁸ Then in September 2006 Strabag was accused by Austrian MEP Hans-Peter Martin of channelling money to the governing parties of Hungary through intermediaries in connection with the M5 motorway.¹⁷⁹

As the cartel case shows, Strabag is not alone in its questionable business practices. In 2006 Hungarian NGOs wrote to the EIB's president¹⁸⁰ to alert him to the series of scandals which have afflicted Hungarian motorway construction since 2003, when the president of the State Motorway Management was

¹⁵⁴ EIB website: <http://www.eib.org/projects/loans/regions/CountryList.asp?listing=1&Region=4&Country=104&Sector=4>, viewed 7th November 2006

¹⁵⁵ Hochtief website: http://www.hochtief-airport.com/airport_en/16.jhtml, viewed 15th November 2006

¹⁵⁶ EIB website: <http://www.eib.org/projects/loans/regions/CountryList.asp?listing=1&Region=4&Country=71&Sector=4>, viewed 15th November 2006,

¹⁵⁷ Hochtief website: http://www.hochtief-airport.com/airport_en/17.jhtml, viewed 15th November 2006

¹⁵⁸ EIB website: <http://www.eib.org/projects/loans/regions/CountryList.asp?listing=1&Region=4&Country=71&Sector=4>, viewed 15th November 2006

¹⁵⁹ Hochtief website: http://www.hochtief-airport.com/airport_en/18.jhtml, viewed 15th November 2006

¹⁶⁰ EIB website: <http://www.eib.org/projects/loans/regions/CountryList.asp?listing=1&Region=4&Country=71&Sector=4>, viewed 15th November 2006

¹⁶¹ Hochtief website: Project List - Concessions Business Within the Hochtief Group, http://www.hochtief.com/hochtief_en/hochtief?id=964, viewed 15th November 2006

¹⁶² EIB website: <http://www.eib.org/projects/loans/regions/CountryList.asp?listing=1&Region=4&Country=71&Sector=4>, viewed 15th November 2006

¹⁶³ EIB website: <http://www.eib.eu.int/news/press/press.asp?press=2082&style=printable>, viewed 15th November 2006

¹⁶⁴ EIB website: <http://www.eib.org/projects/loans/project.asp?loan=8695783>, viewed 15th November 2006

¹⁶⁵ Concor website: www.concor.co.za/News/Documents/Press05.pdf, viewed 15th November 2006

¹⁶⁶ EIB Press Release: "EIB support for Swedish Skane Region", 13.06.2003, <http://www.eib.europa.eu/news/press/press.asp?press=2656&style=printable>

¹⁶⁷ Oresund Bridge website: <http://osb.oeresundsbron.dk/documents/document.php?obj=1009>, viewed 15th November 2006

¹⁶⁸ EIB website: <http://www.eib.org/projects/loans/regions/CountryList.asp?page=&Region=4&Country=200&listing=1&SignatureStart=1&Sector=4&SignatureEnd=-1>

¹⁶⁹ Hochtief Polska website: <http://www.hochtief.pl/>, viewed 10th November 2006

¹⁷⁰ EIB website: <http://www.eib.org/projects/loans/regions/CountryList.asp?listing=1&Region=4&Country=71&Sector=4>, viewed 5th October 2006

¹⁷¹ Container Terminal 4 Bremerhaven website: http://www.ct-bremerhaven.de/90_2, viewed 16th November 2006

¹⁷² Lesotho Highlands Water Project website: <http://www.lhwp.org.ls/overview/default.htm>, viewed 12.01.2007

¹⁷³ David Greybe, "Official faces charge over R12m bribes", Business Day, 29th July 1999, Cape Town, reproduced on <http://www.odiousdebts.org/odiousdebts/index.cfm?DSP=content&ContentID=4874>

¹⁷⁴ Andrew Bounds, Jimmy Burns, Michael Peel And Hugh Williamson: "EU Groups fined for dam project bribes", Financial Times, 04.10.2006, available at http://eiu.com/index.asp?layout=ftwArticleVW3&article_id=321222817&country_id=&refm=ftwHome&page_title=Latest

sacked and prosecuted for misappropriating large sums of money, and to urge the Bank to move away from financing motorways in Hungary and instead finance public transport and the maintenance of existing roads.

Cartel offences in Slovakia

The Hungarian events were accompanied by Strabag's presence among a number of companies excluded for five years from public procurement in Slovakia after being found guilty of cartel offences connected with the construction of the D1 motorway and fined around EUR 10 million (around EUR 38.6 million in total for all the companies involved).¹⁸¹ However it appears that Strabag's subsidiaries are still able to bid for contracts.¹⁸² The EIB signed a loan for the relevant section of the D1 in 2004, though it is not known whether the loan was ever disbursed.¹⁸³

Rising costs, falling ceilings: Sofia Airport

The Sofia airport project, part-financed with a EUR 60 million loan from the EIB, was split up into two parts, with the EIB loan and ISPA grant mainly financing the new terminal and the Kuwait fund mainly financing the runway. Strabag won the tender for the terminal, with NACO B.V. from the Netherlands as a design and engineering consultant.

Strabag's work has been the subject of considerable controversy:

- The new terminal was originally supposed to be completed at the end of 2004, but was finally opened on 27th December 2006, nearly two years late.
- In November 2003 an extra EUR 4.67 million was added to the project cost of EUR 110.6 for the terminal after it was discovered that the geology of the terrain required a more expensive construction technique.¹⁸⁴
- In the summer of 2004 Strabag asked for additional costs because of rising steel prices.¹⁸⁵ In late 2004 the company was blamed for the poor quality of the new paving on the taxiways and at the new terminal¹⁸⁶. It is not clear whether Strabag or its subcontractors carried out the work.
- In February 2006 Strabag was reported as having demanded an additional EUR 15 million for the completion of the project, even though the Bulgarian government was also charging Strabag fines for not completing the project on time.¹⁸⁷
- In the same month, a newly-built roof caved in at the terminal.¹⁸⁸ It is not clear whether Strabag or its subcontractors carried out the work.

¹⁷⁵ World Bank website: <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/>

¹⁷⁶ Lahmeyer International website list of projects: <http://www.lahmeyer.de/e/units/gt/index.html> viewed 16th November 2006

¹⁷⁷ Strabag website: www.strabag.com > performance spectrum > projects, viewed 18.01.2007, Vinci Press Release, 30.01.2006 [www.vinci.com/appli/vnc/cmnprs.nsf/282A45C9F3F490ECC125710600526A8C/\\$file/cphidepito-en.pdf](http://www.vinci.com/appli/vnc/cmnprs.nsf/282A45C9F3F490ECC125710600526A8C/$file/cphidepito-en.pdf)

¹⁷⁸ Hungarian Competition Council, Case No. Vj-27/2003/16.

¹⁷⁹ See for example Hans-Peter Martin's website at: <http://www.weisse.at/Detailanzeige.52+M572559596ea.0.html?&cHash=66db2d598e> or Martin Fritzl and Peter Bognar "Spendenaffaere: Staatsanwalt befasst", Die Presse, 23.09.2006

¹⁸⁰ See CEE Bankwatch Network website: <http://www.bankwatch.org/project.shtml?apc=147578--a-1&x=1926653>

¹⁸¹ Christoph Thanei: "Slowakei: Strabag fuerf Jahre gesperrt", Die Presse, 29.11.2006, <http://www.diepresse.com/Artikel.aspx?channel=e&ressort=eo&id=601952&archiv=false>, Anti-Monopoly Office of the Slovak Republic: <http://www.antimon.gov.sk/eng/article.aspx?c=387&a=2462>

¹⁸² "Strabag darf ueber Tochterfirmen bieten", Die Presse, 02.12.2006

¹⁸³ EIB Press Release: "Slovakia: EIB loan of EUR 30 million for new motorway", 12.11.2004 <http://www.eib.europa.eu/news/press/press.asp?press=2865&listing=1>

¹⁸⁴ Dnevnik: "Strabag seeks new revision of passenger terminal costing, arbitration looms" 12.08.2004, <http://en.dnevnik.bg/?y=2004&m=8&d=12>

¹⁸⁵ Dnevnik: "Strabag seeks new revision of passenger terminal costing, arbitration looms" 12.08.2004, <http://en.dnevnik.bg/?y=2004&m=8&d=12>

¹⁸⁶ Sofia Echo: "Sofia Airport tarmac tussle", 30.09.2004, http://www.sofiaecho.com/article/sofia-airport-tarmac-tussle/id_10078/catid_23

¹⁸⁷ Ivan Vatahov: "New demands for completion of Sofia Airport project", 20.02.2006 http://www.sofiaecho.com/article/new-demands-for-completion-of-sofia-airport-project/id_13591/catid_23

¹⁸⁸ Ivan Vatahov: "New demands for completion of Sofia Airport project", 20.02.2006 http://www.sofiaecho.com/article/new-demands-for-completion-of-sofia-airport-project/id_13591/catid_23

The EIB continues to support the car industry more than any other industry even though it is widely recognised that road transport is unsustainable.



- Even though the terminal is officially open, the National Construction Control Directorate has still not issued permits for part of the facilities. Passengers complain that mobile communications are hard or impossible to use at the new terminal, as the mobile networks have not yet been allowed to set their systems for safe transmission, so as not to interfere with the air traffic control.¹⁸⁹

In spite of the above, at the airport's official opening European Commissioner for Regional Policy, Danuta Hübner, still claimed that "despite the complexity and scale of this project, it was brought to a successful end showing that when all efforts are mobilised Bulgaria demonstrates good absorption capacity which is of critical importance for its performance as a Member State of the EU"¹⁹⁰

The case illustrates the potential for both excessive demands and corner cutting by construction companies involved in infrastructure construction. The EIB currently has no mechanism for excluding underperforming companies from future contracts, meaning that such cases are likely to occur again.

For more on the Sofia Airport case, see Section 8 on Environmental Impact Assessment (EIA) public participation and impact on nature.

6.3 Car manufacturing

It is widely recognised, including in the 2001 White Paper, that road transport is unsustainable and that a massive shift towards public transport, cycling and walking needs to take place within the EU. Against this background, however, the EIB continues to support the car industry more than any other industry. As shown above, 31% of the EIB's entire funding for industry between 1996 and 2005 went to the car industry and in central and eastern Europe this percentage rose to 63%.

It is widely recognised that road transport is unsustainable and that a massive shift towards public transport, cycling and walking needs to take place within the EU. Yet the EIB continues to support the car industry more than any other industry.

It is true that the European car industry is subject to fierce competition from manufacturers from other parts of the world, and that giving favourable EIB loans to the industry is one of the ways in which the EU can support its own industry and help to maintain jobs. However, as with support for the air industry, a number of questions arise as to whether maintaining jobs is the only aim of EIB loans, and whether it would not be better to use public money to support or expand industries and services with more public interest credentials.

¹⁸⁹ Calendar.dir.bg web portal: "Puskat noviyat terminal na letishche Sofia", 27.12.2006 <http://calendar.dir.bg/inner.php?d=27&month=12&year=2006&cid=&sid=&eid=30883>; Big.bg web portal: "Dokoga bez GSM na noviya terminal?", 23.01.2007, <http://big.bg/modules/news/article.php?storyid=40498>

¹⁹⁰ European Commission Press Release: Opening of new terminal for Sofia airport co-financed by the EU, 28.12.2006, <http://www.europa.eu/rapid/pressReleasesAction.do?reference=IP/06/1905&format=HTML&aged=0&language=EN&guiLanguage=en>

Some may support the use of public money for the car industry if it is being used to develop more efficient engines and engines running on alternative fuels. From the small amount of information publicly available about EIB projects it has usually not been possible to tell whether the financing is being used for more efficient engines. However, **there are notable cases where EIB financing has been used for the development of luxury vehicles affordable to only a few – vehicles which feature neither low fuel consumption nor low emission levels**, for example:

- In 2003 the EIB provided to Land Rover a EUR 250 million to develop two new versions of existing Land Rover models.¹⁹¹
- In 2002 the Bank lent Jaguar EUR 300 million to develop the Jaguar X350.¹⁹²
- In 1998 the Bank lent EUR 21.7 million to Steyr Daimler Puch for the development and manufacture of a sports utility vehicle (SUV).¹⁹³

SUVs are widely criticised for their high fuel consumption and high levels of CO₂ emissions, as well as for safety reasons and there is even a campaign group solely dedicated to stopping their use in urban areas in the UK.¹⁹⁴

Even though there has been a gradual trend towards more efficient vehicles in the EU, progress by the European car manufacturers has not been as fast as they pledged in 1998 when the European Automobile Manufacturers Association (ACEA) committed the EU to reduce the average CO₂ emissions from their new cars in the EU to 140 g/km by 2008.¹⁹⁵

In October 2006 campaign and research group T&E published a report comparing the progress made by car manufacturers so far in achieving their targets.

Only three out of 20 had managed to do so, with another two manufacturers coming close.¹⁹⁶ Yet the EIB has also financed several companies which have failed to reach their targets such as Volkswagen and Skoda, thus showing that, overall, **EIB financing has not been targeted towards those companies making progress towards improving their efficiency.**

In addition, several problems remain with financing the car industry in general, whether the resulting cars are more efficient or less efficient:

- There is no reason apart from generally maintaining employment why their manufacture should be supported, and as noted above there are other ways to create employment. **There are simply too many cars on the roads, and whether efficient or not, they still cause congestion and accidents.**
- **Ensuring a steady supply of relatively affordable cars influences people's transport decisions** and hinders the much-needed shift to rail and public transport outlined in the 2001 Transport White Paper. It represents a subsidy *against* public transport.
- **Cars are developed by private companies for use by those citizens who can afford them** – there is no public interest reason for supporting the car industry per se.

6.4 PPP – public-private partnerships

What is a PPP?

The key feature of a public-private partnership, in the understanding of the EIB, is a "*risk sharing relationship between public and private promoters, based on a shared commitment to achieve a desired public policy outcome.... The term PPP is, thus, used to de-*

¹⁹¹ EIB website: <http://www.eib.org/projects/loans/regions/CountryList.asp?listing=1&Region=4&Country=93&Sector=9>, viewed 9th November 2006

¹⁹² EIB website: <http://www.eib.org/projects/loans/regions/CountryList.asp?listing=1&Region=4&Country=93&Sector=9>, viewed 9th November 2006

¹⁹³ EIB website: <http://www.eib.org/projects/loans/project.asp?loan=8693474>, viewed 9th November 2006

¹⁹⁴ See <http://www.stopurban4x4s.org.uk> for more information about the problems caused by SUVs in cities.

¹⁹⁵ Transport & Environment: How Clean is Your Car Brand? The car industry's commitment to the EU to reduce CO₂ emissions: a brand-by-brand progress report, October 2006, p.2

¹⁹⁶ Transport & Environment: How Clean is Your Car Brand? The car industry's commitment to the EU to reduce CO₂ emissions: a brand-by-brand progress report, October 2006, p.6

¹⁹⁷ EIB: The EIB's role in Public-Private Partnerships (PPPs), 15th July 2004, p.2, <http://www.eib.org/publications/publication.asp?publ=189>

scribe a wide variety of working arrangements from loose, informal and strategic partnerships, to design, build, finance and operate (DBFO) type service contracts and formal joint venture companies.”¹⁹⁷

By the end of 2003 the EIB had signed loans for PPPs worth EUR 13.7 billion for transport projects, making up 93% of the EIB's PPP investments.¹⁹⁸

Most of these were for motorways, tunnels and bridges. The EIB states that *“It should be stressed ... that the Bank has no policy preference for PPPs, as opposed to other forms of procurement,”¹⁹⁹* but on the other hand *“there has been, since 1999, a clear policy from the European Commission to increase the level of private funding of infrastructure, e.g. in the transport sector, and the PPP structure is one way of achieving that policy objective.”²⁰⁰*

The main common feature of different PPP arrangements is that some degree of risk is transferred to the private sector. There are three main kinds of risk which can arise in infrastructure projects:

- 1) Construction risks: mainly for physical infrastructure such as roads or railways. If the product is not delivered on time, runs up extra costs, or has technical defects, the risk is borne by the partner who pays for such unforeseen cases.
- 2) Availability risk: mainly for services such as running prisons, hospitals or schools. If the private company cannot provide the service promised, or at the level promised – for example it does not meet safety or other relevant quality standards. If the public sector is contractually allowed to withhold payments then the risk is borne by the private sector.
- 3) Demand risk: in cases where there are fewer than expected users of the service or infrastructure, for example on toll-roads, bridges or tunnels. If the public sector has agreed to pay a minimum fee irrespective

of the demand, it is assumed to bear the demand risk.

According to Eurostat, a project is a non-government investment if the private sector bears the construction risk and either the availability risk or the demand risk.²⁰¹

The perceived advantage of PPPs is that the private sector can bring its expertise and efficiency into projects, and that time and therefore cost over-runs should occur less frequently than with purely public sector projects. However, this may not be solely a result of PPPs. The EIB's evaluation of PPP projects stated that the completion of projects on time, on-budget and to specification *“reflected the use of fixed-price, fixed-term turnkey construction sub-contracts. These are common in PPP structures, but could also have been applied to public procurement.”²⁰²*

Controversy about transport sector PPPs

PPPs have proved to be controversial in all sectors and transport is no exception. The relatively complicated structure of PPPs and the purported need to maintain commercial confidentiality has meant that projects have not been open to a high degree of public scrutiny. Poor distribution of risks has in some cases led to financial problems for the project company (eg. the Channel Tunnel) and on the other hand has sometimes led to excessive profits (see the London Underground case study below and Athens International Airport case study above). In the UK, one of the countries in which PPPs have been frequently used in the form of the Private Finance Initiative (PFI), construction firms traditionally receive rates of return of 1.5% to 2% on contracts but expect margins of 7.5% to 15% on PFI building schemes, and if they are also equity holders in the project company they may expect 10% to 20%.²⁰³ This increase in profits is said to be

¹⁹⁸ EIB Operations Evaluation Department: Evaluation of PPP Projects Financed by the EIB, March 2005, Appendix 1.

¹⁹⁹ EIB: The EIB's role in Public-Private Partnerships (PPPs), 15th July 2004, p.13, <http://www.eib.org/publications/publication.asp?publ=189>

²⁰⁰ EIB Operations Evaluation Department: Evaluation of PPP Projects Financed by the EIB, March 2005, p.15

²⁰¹ Eurostat Decision STAT/04/18 (11 February 2004): New decision of Eurostat on deficit and debt: Treatment of public-private partnerships

²⁰² EIB Operations Evaluation Department: Evaluation of PPP Projects Financed by the EIB, March 2005, p.4

²⁰³ Terry Macalister: “PFI triples profits say firms” The Guardian, 08.09.2003, <http://business.guardian.co.uk/story/0,,1037267,00.html>



compensation for the risk transfer to the private sector, but it is nevertheless open to debate whether it is proportionate and how much of the risk is actually transferred.

Teething problems or corporate welfare scheme? London Underground PPP

In 2002 and 2003 the EIB provided loans totalling EUR 1.3 billion for the modernisation of the London Underground²⁰⁴ as part of a highly controversial PPP scheme which involved splitting the metro network's infrastructure from its operation.

London Underground Ltd. operates the system, while two engineering consortiums – Metronet and Tube Lines – are responsible for modernising the infrastructure, an arrangement which the then Transport Commissioner for London condemned as “unsafe, inefficient and prohibitively expensive.”²⁰⁵ The Mayor of London also opposed the project, instead proposing a bond-financed scheme with private sector involvement only for larger discreet engineering contracts.

Metronet is made up of contractors WS Atkins, Balfour Beatty, Bombardier, Seeboard and Thames Water, while Tube Lines comprises Amey (now

owned by Ferrovial) and Bechtel (Jarvis also formerly owned a stake).

The companies won 30-year contracts worth GBP 15.7bn with the private sector contributing 25% towards the work, government grants 60% and fares 15%. The contract alone cost GBP 455m of public money in lawyers' and consultants' expenses due to its complexity. In 2002, the UK government Select Committee on Transport, the Environment and the Regions concluded: “It was not possible to establish that the PPP offered value for money”.²⁰⁶

The risk for the companies is low. They are paid less if they do not meet their targets for availability, but the targets are not very ambitious. The House of Commons Transport Committee delivered a damning verdict on the work done up until the end of 2004: “All the *infracos* [infrastructure companies] needed to do to meet their availability benchmarks was to perform only a little worse than in the past. On most lines, they did not even manage that.”²⁰⁷

Yet the poor performance has not been sufficiently reflected in the companies' income from the PPP. Due to the performance criteria in the contract, in

²⁰⁴ EIB Press Release: EIB supports London Underground modernisation, 04.04.2003, <http://www.eib.europa.eu/news/press/press.asp?press=2624&style=printable>

²⁰⁵ Robert Kiley, Transport Commissioner for London, Report to Ken Livingstone on the London Underground PPP, 2001, www.london.gov.uk/mayor/ppp/reportfinal.pdf

²⁰⁶ UK Government: Second Report from the Transport, Local Government and the Regions Committee, London Underground, 2002 (HC (200102) 387-1)

²⁰⁷ House of Commons Transport Committee: The Performance of the London Underground, Sixth Report of Session 2004–05, 18th March 2005. p.9

²⁰⁸ House of Commons Transport Committee: The Performance of the London Underground, Sixth Report of Session 2004–05, 18th March 2005. Appendix: Oral evidence taken before the Transport Committee on Wednesday 8th December 2004, Ev.39

²⁰⁹ House of Commons Transport Committee: The Performance of the London Underground, Sixth Report of Session 2004–05, 18th March 2005. Appendix: Oral evidence taken before the Transport Committee on Wednesday 8th December 2004, Ev.1

2003 the two companies were fined a total of GBP 32 million for not reaching their targets, yet were still awarded GBP 12 million in bonuses for good performance.²⁰⁸ During the first full year of the PPP, combined operating profits were at 13%.²⁰⁹ Tube Lines made a pre-tax profit of GBP 41.6 million in the year to March 2004 and Metronet made a pre-tax profit of over GBP 50 million.²¹⁰ Such profits have not gone unnoticed among London Underground users and have been widely criticised in the media.²¹¹

Even though the PPP is still at a relatively early stage, the issues above show that the project has been poorly designed. The need to implement a PPP arrangement as opposed to a bond-based financing scheme has never been adequately proven; questions about the efficiency and safety of the management structure for the underground system remain, and the PPP contract appears to enable the infrastructure companies to make large profits with too little risk transferred onto them.

Trakia Highway²¹²

In 2000, the EIB approved a loan of EUR 100 million for the construction of the Orizovo-Stara Zagora and Karnobat-Burgas sections, totalling 75km, of the east-west Trakia Highway in Bulgaria.²¹³

In March 2005, when more than 40% of the EIB loan had still not been disbursed, the Bulgarian government awarded a 35-year concession to a consortium to build and operate 188km of the motorway. The consortium consists of two Bulgarian companies Avtomagistrali s.p. (25% of shares) and Technoportstroi s.p. (24% of shares) - and three Portuguese companies: MFS - Moniz Da Maia, Serra And Fortunato, "Lena Engenharia E Construcoes, S.A, and Somague Concessoerirs E Servicos, S.A (together owning 51% of the shares). According to the clause in the concession contract EIB could give another



loan of 100 million euro for competition of the Trakia Motorway if the government decided on it. **The concession was awarded with no tender process**, and the contract gave the consortium excessively generous conditions:

1) The concessionaire won the right to collect tolls from already-built road sections as well as already-built roadside facilities, although this involves no construction risk.

2) The agreement included a clause guaranteeing that the Bulgarian state would pay compensation to the company if there was not enough traffic for the company to make a profit. Thus the private sector carries no demand risk. This is particularly important in this case considering that **even the government's own figures lead to the conclusion that it will have to pay compensation to the consortium for at least 23 years after the completion of the motorway**, and other studies carried out for example by Spanish consulting firm Europistas show that compensation may have to be paid for the entire duration of the concession. According to Transparency International 25 650 vehicles per day need to use the motorway, each paying 2.5 Euro Cents per kilometre, but according to an official forecast from the Central Laboratory for Roads and Bridges for 2010, traffic rates are likely to vary as follows:

²¹⁰ House of Commons Transport Committee: The Performance of the London Underground, Sixth Report of Session 2004–05, 18th March 2005. Appendix: Oral evidence taken before the Transport Committee on Wednesday 8th December 2004, Ev.39

²¹¹ eg. Ed Vulliamy and Andrew Clark: Down the tube: how PPP deal is costing London, The Guardian, 21.02.2005 http://www.guardian.co.uk/uk_news/story/0,,1418922,00.html

²¹² Unless otherwise stated, all information in this case study comes from: Transparency International Bulgaria: "Granting a concession on Trakia Motorway - Interim Report of the investigation of Transparency International Bulgaria on the problems related to the construction of Trakia Motorway as a Public-Private Partnership between the Republic of Bulgaria and Avtomagistrala Trakia Joint Stock Company", Sofia, April 2005, p.12-13

²¹³ EIB Press release: "EUR 100 million for the main east-west motorway in Bulgaria", 28.07.2000, <http://www.eib.org/news/press/press.asp?press=524>

The EC Resource Book on PPP Case Studies recognises that “the transport sector is useful in demonstrating the potential for failure if fundamental issues are not correctly addressed. These include: demand forecasts, cost control, coherent planning or ensuring sustained political support, to cite but a few causes.”

- 6400 vehicles/day on the Kalotina – Sofia section;
- 11 000 - 21 000 vehicles/day on the already constructed sections;
- 13 000 vehicles/day on the Orizovo – Stara Zagora section;
- 7500 thousand/ day on the Sliven – Karnobat section.

3) According to the contract the concessionaire owes a concession payment only if its income exceeds its expenses, including the right to 12 % profit. In addition, payment is only due from the year following the first year when income exceeds expenses.

4) The value of the contract is subject to some uncertainty, as the government cited EUR 717 million as the total investment cost but cited EUR 590 million as the construction costs. Transparency International calculated that this put the cost of construction at EUR 2.7 million per kilometre for relatively flat terrain without tunnels and viaducts, which is 2-3 times the normal market price.

5) The expected profit of the concessionaire over the concession period would be EUR 191.8 million.

The issue became subject to intense debate in Bulgaria, and in early 2007 the Prime Minister finally stated that: “We reached the conclusion that the state is overly burdened by the guarantees on the risks of the concession and our wish is for this situation to be changed.”²¹⁴ Attempts have been made to change the concession contract, increasing the demand risk for the concessionaire, scrapping state guarantees for loans, and ensuring that the state, not the concessionaire, will pay back the previously borrowed EUR 100 to the EIB.²¹⁵ As yet it is unclear whether the consortium will accept the new conditions.

The case illustrates the ability of companies to take advantage of weak, inexperienced or corrupt decision-makers in drawing up PPP contracts, but also highlights the fact that such contracts can be changed by thorough public scrutiny. However, the issue of the lack of tender procedures remains unresolved. The EIB has previously been quoted as saying that it could not finance a project for which there was no tender process²¹⁶ but since the Bulgarian government is hurrying to finish the project and has no intention of organising a tender, only time will tell whether the EIB will turn a blind eye.

For further information see Transparency International report cited in footnotes.

The EC Resource Book on PPP Case Studies recognises that **“the transport sector is useful in demonstrating the potential for failure if fundamental issues are not correctly addressed. These include: demand forecasts, cost control, coherent planning or ensuring sustained political support, to cite but a few causes.”**²¹⁷

Poor demand forecasting: The Herrentunnel, Lubeck, Germany

In 2001 the EIB provided a loan of EUR 80 million for the construction of a EUR 175 million²¹⁸ toll road tunnel under the River Trave in Lubeck, Germany,²¹⁹ to replace an older lifting bridge which sometimes needed to be opened to let larger ships pass, thus causing traffic jams in the city. A PPP contract between the City of Lubeck and concessionaires Hochtief and Bilfinger Berger was signed in March 1999, and the tunnel opened in 2005.²²⁰

After a year of operation, however, the project had left no-one satisfied. In August 2006 it was reported that 22 000 vehicles per day were using the tunnel, compared with the 37 000 forecast, and that around

²¹⁴ Marija Vasileva: “Pravitelstvoto pusna dogovora za “Trakia” s novi uslovija”, Mediapool.bg portal, 25.01.2007, <http://mediapool.bg/show/?storyid=125396>

²¹⁵ Marija Vasileva: “Pravitelstvoto pusna dogovora za “Trakia” s novi uslovija”, Mediapool.bg portal, 25.01.2007, <http://mediapool.bg/show/?storyid=125396>

²¹⁶ Sofia Echo: “EIB firm on Trakia Highway”, 30.05.2005 http://www.sofiaecho.com/article/eib-firm-on-trakia-highway/id_11410/catid_5

²¹⁷ European Commission Directorate-General Regional Policy: Resource Book on PPP Case Studies, June 2004, p.87

²¹⁸ Herrentunnel website: www.herrentunnel.de/fakten.html, viewed 14th December 2006

²¹⁹ EIB website: <http://www.eib.org/projects/loans/project.asp?loan=8918386>, viewed on 10th December 2006

²²⁰ “Streit um Herrentunnel spitzt sich zu: Stadt prueft Klage”, Luebecker Nachrichten, 08.08.2006, p.9

²²¹ “Hochtief-Chef zum Herrentunnel: Wir waren zu unkritisch”, Luebecker Nachrichten, 06-07.08.2006, p.22

EUR 9-10 million worth of tolls were being taken per year compared with the expected EUR 18-20 million. The main reason cited for this was that the predicted traffic figures were too high and that long-distance traffic was using the longer alternative A20 motorway route rather than using the tunnel.²²¹

The concessionaires began negotiations with investors to extend the loan repayment period and are also negotiating with the City Council to extend the concession period for the tunnel so that income can be made up over a longer period.²²² The running of the tunnel has been subject to fierce criticism in local newspapers, particularly due to the raising of toll fees in October 2006,²²³ which is seen as making the public pay for the failures made by the City and the concessionaires.

The concessionaires have also begun to look at ways of saving money to make up for the shortfall, and suggested replacing the current free of charge shuttle-bus service, which takes pedestrians and cyclists through the tunnel, with a footpath through the tunnel. Halting the bus service during the night had been suggested before, as it was deemed too inefficient due to the small number of passengers, yet without it pedestrians and cyclists would have had no way to cross the river during the night, and protests stopped the move. The footpath plan has also been criticised by city councillors as they point out that many people would simply be too scared to use the tunnel at night.²²⁴

The future of the project remains open but the tunnel, supposed to be a pioneering PPP in Germany, has not provided a good example for others to follow. The project is likely to have been economically problematic in any case but the expectation and legal necessity of private concessionaires to make a profit has resulted in dissatisfaction all round.

Value for money and public sector comparators: Central to the success or failure of PPPs is an

analysis on whether a PPP option represents good value for money compared to a public procurement scheme. The EIB does not normally regard it as necessary to independently assess the expected value for money from PPP compared to public procurement:

"In practice, public promoters usually prepare a "public sector comparator" for their PPP operations, and this would generally be reviewed by the Bank's technical services and, where appropriate, discussed with the promoter as part of the Bank's economic appraisal of the project. The Bank would expect the competent authorities to carry out such an analysis themselves and choose the most appropriate solution for the investment. The Bank's role is to decide on whether it was ready to finance the investment as developed by the project promoter".²²⁵

The crucial analysis of relative value for money is not always carried out with the diligence it deserves, partly because there is no standardised method for doing so. In the UK, a Public Sector Comparator (PSC) calculation is used but it has been widely criticised for rigging calculations in favour of PPP schemes, including by the National Audit Office, whose deputy controller and auditor-general Jeremy Coleman dismissed some calculations as "utter rubbish" and "pseudo-scientific mumbo-jumbo".²²⁶

The EIB's evaluation of its PPP projects also shows the lack of consistency with which PSCs and value for money calculations are carried out and highlights that in most cases the Bank does not scrutinise these analyses adequately:

"Only the projects in two countries had been the object of a formalised PSC process, although a third had used an ad hoc system. The Bank did not normally review the PSC, although the assumed cost and benefit figures were often used for the Economic Return (EIRR) calculation. However PJ [EIB Projects Directorate] economists said that

²²² "Hochtief-Chef zum Herrentunnel: Wir waren zu unkritisch", Luebecker Nachrichten, 06-07.08.2006, p.22

²²³ "Herrentunnel: Maut wird teurer statt billiger", Hamburger Abendblatt, 29th August 2006, <http://www.abendblatt.de/daten/2006/08/29/603768.html>

²²⁴ "Fussweg durch den Herrentunnel: Betreiber wollen Roehre umbauen", Luebecker Nachrichten, 04.08.2006

²²⁵ EIB response to Bankwatch information request, Luxembourg 10th December 2006v

²²⁶ Nicholas Timmins: "Warning of 'spurious' figures on value of PFI", Financial Times, 05.06.2002



they would encourage the Promoter to make use of a PSC in its own review of alternatives. [With one exception] The Bank did not normally consider whether a particular PPP structure offered VfM [Value for Money] compared to other possible structures. It is also notable that a PSC was not used for one country's motorway programme, and a subsequent review by the national audit office pointed out that the programme had not been preceded by an assessment of VfM.²²⁷

Excessively large projects: The need to encourage private sector interest can in some cases also encourage the development of very large projects which are attractive to the private sector, particularly construction companies, but whose benefits to citizens, the environment, or the economy may not be assured. Whilst it is the projects themselves which are questionable and not the fact that they are PPPs, it is PPP which enables the mobilisation of financing for such projects and which may in some cases encourage the over-construction of transport infrastructure.

Examples of EIB-financed projects raising this issue are the Oresund Fixed Link between Denmark and Sweden, and the Channel Tunnel between the UK and France, and the associated Channel Tunnel Rail Link. The Oresund Fixed Link and Channel Tunnel both experienced a weak beginning, with lower than expected levels of traffic – in the case of the Eurostar train service from London to Paris and Brussels, traf-

fic was only around half of the expected levels until 2003.²²⁸ Eurotunnel, the Channel Tunnel operating company, has suffered from financial problems ever since the tunnel was opened, and is now attempting to undergo a debt restructuring process to save itself from bankruptcy.²²⁹

While the demand risk in these projects was mainly borne by the private sector there are still issues which are of general public concern. First, in road projects, from an environmental point of view, encouraging an increase in traffic levels in order to increase income from user fees is at odds with the need to reduce transport demand and emissions, and therefore it needs to be established to what extent payments should be made to the PPP company on the basis of demand for road projects. If payment is made according to demand, it encourages the setting of pricing at a level which encourages more traffic, whereas if payment is unconnected to demand there is a high incentive to construct new infrastructure irrespective of demand. Second, in some types of project, such as the Channel Tunnel, it is hard to entirely transfer risk to the private sector because if the project gets into difficulties the public sector has little choice but to support the existing project implementation team.²³⁰

Should the EIB support PPPs at all?

The EIB's involvement in PPPs, as in other projects, should be limited by its statute: The Bank's evaluation of PPP projects found that: *'There is only one case (out of 10 evaluated in-depth) where the project could not have proceeded without the EIB's participation, or at least not without being substantially revised.'*²³¹ As we have seen above, however, Article 18 of the EIB's statute stipulates that it may only finance projects where other financing is not available on reasonable terms, so the question of whether it should support PPPs would be of much less importance if the EIB would interpret its statute literally.

²²⁷ EIB Operations Evaluation Department, 'Evaluation of PPP projects financed by the EIB', March 2005, p.21

²²⁸ European Commission Directorate-General Regional Policy: Resource Book on PPP Case Studies, June 2004, p.119

²²⁹ BBC website: "Key Vote for Eurotunnel Debt Plan", 14th December 2006, <http://news.bbc.co.uk/2/hi/business/6178447.stm>

²³⁰ European Commission Directorate-General Regional Policy: Resource Book on PPP Case Studies, June 2004, p.123

²³¹ EIB Operations Evaluation Department, 'Evaluation of PPP projects financed by the EIB', March 2005, p. 29



The EIB's involvement added financial value to the PPP projects, but this added value sometimes benefited corporations rather than the public sector: *'While issues of loan term and repayment profile were important, the most important reason for the EIB being brought into the projects was its lower "all-in" cost of financing. This raises the issue of displacement of commercial lending, especially as this lower cost did not always accrue to the public sector.'*²³²

From the EU policy point of view there is no reason why the EIB should not be involved in PPP projects in the transport sector, but as can be seen from the above there are a number of conditions which need to be met for PPP to be a useful tool in transport financing:

- The project must be based on a thorough strategy (at the EU and national level) of real transport needs which is in accordance with the EU White Paper on

Transport and has been subject to public consultation and strategic environmental impact assessment (SEA).

- The project itself must be socially, environmentally and economically sound. This is universally recognised but too often overlooked.
- There needs to be stronger public scrutiny over PPP projects and contracts. This is the most difficult criterion to achieve as PPP arrangements are often extremely complex.
- A thorough and fair analysis needs to be made on whether a PPP represents the best value for money compared to public procurement, and the EIB needs to be much more active and rigorous in ensuring the quality of this.
- The public sector needs to be strong enough to successfully negotiate with the private sector and willing to break off negotiations if the private sector is too demanding.

²³² EIB Operations Evaluation Department, 'Evaluation of PPP projects financed by the EIB', March 2005, p. 29



7. Social and economic impacts of EIB transport investments

7.1 Transport infrastructure, economic growth and employment

It has frequently been claimed by proponents of road-building and airport expansion that more roads and airports help to bring economic growth. EIB loans, particularly for airport infrastructure, are often defended on the grounds of employment creation or maintenance. The Air Transport Action Group claims that aviation generates 29 million jobs globally – 5 million of them direct employment – and supports 8% of global GDP.²³³ Such claims are made with the implication that governments that do not construct ‘enough’ new infrastructure risk diminishing the competitiveness of their country and inducing an economic downturn.

However, only direct employment and economic figures are meaningful as it is unclear to what extent the other related industries and services are really dependent on aviation. T&E has therefore re-calculated aviation’s contribution to global employment in 1998 as being 0.1% and its contribution to GDP as being 1%.²³⁴

Figures on the current contribution of a sector to employment and GDP are interesting, but it is often

overlooked that they do not in themselves provide any guidance on the extent to which a sector should expand or be restricted:

“Neither figures on employment – direct, indirect or induced – nor figures on an industry’s contribution to national GDP provide any sound indication of the social desirability of expansion or restriction. Proper allowance should be made for the redistribution effect: to a large extent, people will find employment elsewhere in the economy.”²³⁵

Airbus, for example, has a total of 55 000 employees²³⁶, most of whom are employed in Europe. This is a considerable number, however it is not so impressive when subsidies are factored in. In the UK, around 200 000 people are employed in the aviation industry, but with the annual subsidy of GBP 9 billion (EUR 13.4 billion) to the aviation sector estimated by Brendan Sewill, subsidies per job amount to GBP 45 000 (EUR 67 000) per year, and any industry could provide jobs if subsidised at that rate.²³⁷

Thus the issue should not be whether jobs and contribution to GDP from aviation exist per se, but whether aviation is the best value way to create jobs and contribute to GDP if compared

²³³ ATAG: “The economic and social benefits of air transport”, 2005 <http://www.atag.org/content/showlatestpublications.asp?level1=4&folderid=431>

²³⁴ Transport & Environment: Clearing the Air: The Myth and Reality of Aviation and Climate Change, 2006, p.10, http://www.transportenvironment.org/docs/Publications/2006/2006-06_aviation_clearing_the_air_myths_reality.pdf

²³⁵ CE Delft: The contribution of aviation to the economy: Assessment of arguments put forward, 2005, p.13

²³⁶ Airbus website: www.airbus.com, viewed 2nd November 2006

²³⁷ Brendan Sewill: “Fly Now, Grieve Later,” Aviation Environment Federation, 2005 p. 41

Social and economic impacts

Serious questions remain about whether aviation is the best value way to create jobs and contribute to GDP if compared with other policy options



with other policy options.²³⁸ With this in mind the EIB's support for the air industry becomes especially questionable.

This is also true of road construction. Proponents often claim that roads bring economic development, but in 1999 the SACTRA Report on "Transport and the Economy" found that **economic benefits from new trunk roads may exist but that they are not guaranteed** and are strongly dependent on local circumstances. It also found that **improved accessibility between two countries or regions may sometimes benefit one of them to the detriment of the other**,²³⁹ which calls into question the rationale – often treated as default – of transport infrastructure projects intended to increase the economic and social cohesion of the EU, and shows that their costs and benefits need to be better examined.

The claim that aviation contributes to regional development deserves the same scrutiny as the argument that roads bring economic development. **While increased air services do bring increased numbers of tourists to some areas, this is generally at the expense of other tourist areas.** For example, it has been estimated that British tourists spend 35% more abroad than foreign tourists do in the UK.²⁴⁰ In addition, cheap air travel means that rural tourist regions which are mainly reached by means of

transport other than planes lose out as people spend their holidays further away. It is also not clear why the financing of one airline is a project of common interest to several EU Member States: people may fly to and from several Member States, but this does not automatically mean that it is in the overall interest of each state.

Another general argument is often given in favour of low-cost airlines: that they enable low-income people to fly and therefore they "contribute towards social justice. This may initially sound appealing, but reality does not bear this out. A 2004 passenger survey at Stansted airport in the UK, which mainly operates low-cost flights, showed that the average leisure passenger income was GBP 45 419.25 (around EUR 67 000)²⁴¹ - compared to the 2004 average UK gross salary of approximately GBP 23 000²⁴². Rather than enabling a greater variety of people to fly, it seems that budget flights simply enable a similar group of people to fly more often.

7.2 Labour standards

As the EIB invests more and more outside of the European Union, more care needs to be taken that loans do not contribute to moving production to countries with lower labour standards for the benefit of company profits. It is usually difficult to pinpoint exact cases in which jobs have been lost in Europe and moved to 'cheaper' countries. There is already one known case in the transport sector in which the EIB has supported a European company with a lack of control over the labour standards of its contractors.

Volkswagen, Mexico

In 2004 the EIB approved a EUR 70 million loan for Volkswagen's plant in Pueblo, Mexico. The aim of the project was the installation of new production facilities for the VW Jetta A5 vehicles, and invest-

²³⁸ Professor John Whitelegg: The Economics of Aviation: a North West England perspective, Council for the Protection of Rural England, 2003, p.11

²³⁹ SACTRA (Standing advisory committee on trunk road assessment) Report: "Transport and the economy", HMSO, 1999, p.3

²⁴⁰ Oxford Economic Forecasting (OEF): The contribution of the aviation industry to the UK economy; Final report, November 1999, cited in CE Delft, The contribution of aviation to the economy: Assessment of arguments put forward, 2005.

²⁴¹ Civil Aviation Authority Economic Regulation Group: Passenger Survey Report 2004, CAA, Table 16.5, www.caa.co.uk

²⁴² UK Office for National Statistics: "Labour Force Survey (LFS) Historical Quarterly Supplement Table 37 - Average gross weekly/hourly earnings by industry sector" <http://www.statistics.gov.uk/STATBASE/ssdataset.asp?vlnk=7937>

Rather than enabling a greater variety of people to fly, it seems that budget flights simply enable a similar group of people to fly more often.

ment in the production of the new R5 low emission engine, which would meet North American emissions standards.²⁴³ The project is one of three EIB-financed projects supporting Volkswagen in Latin America (EUR 91 million was lent to Volkswagen in Brazil in 2000,²⁴⁴ and EUR 45 million was lent to Volkswagen in Argentina in 2001²⁴⁵).

Labour standards have been identified as a problem in the project: The Independent Workers Union of the Volkswagen Automobile Industry (SITIAVW) Mexico has repeatedly confronted the company's management on its allegedly anti-union policies. In addition, much of the work is contracted out to local employers which pay 40-50% less than Volkswagen.²⁴⁶ The majority of Volkswagen Mexico's production (around 66% in 2003) is exported to North America,²⁴⁷ so **on the one hand EU and US workers are disadvantaged by Volkswagen's decision to locate its production in Mexico, while on the other hand Mexican workers are disadvantaged by poorer working conditions than their Northern counterparts.** Although the EIB has guidelines for the social assessment of projects in developing countries it is not clear whether a social assessment was carried out for this project at all.²⁴⁸

The project, along with the EIB's other Latin and Central American investments examined in the recent report: "*The EIB in the South: In Whose Interest?*"²⁴⁹, raises questions about the degree to which the affected country benefits from EIB invest-

ments, compared to European businesses. In Mexico all of the EIB's investments have benefited large European or half-European companies, while no Global Loans or other financial assistance has been made available to support the small and medium companies which make up approximately 98% of Mexican companies.²⁵⁰

The case, along with others in different sectors, raises questions about the EIB's operations outside of the EU and their impacts. Recommendations for the EIB's operations outside of the EU have been laid out in *The EIB in the South: In Whose Interest?*²⁵¹

7.3 Impact on air quality and health

Many of the same concerns about the EIB's financing of projects increasing CO₂ emissions also apply to projects which increase air pollution and affect people directly in the vicinity of the projects. It is estimated that 310 000 premature deaths are caused annually in Europe by air pollution,²⁵² as well as 41 600 deaths and more than 1.7 million people injured in road accidents in Europe in 2005.²⁵³

Roads and airports are the main sources of transport pollution. We have seen above that the air around Heathrow airport already contains high levels of nitrogen dioxide. Projects like that at Heathrow provide evidence that the EIB is failing to take air quality into account sufficiently during its project evaluation process, with a knock-on effect on public health.

²⁴³ EIB Press Release: Mexico: EIB loan of EUR 70 million for Volkswagen de Mexico, 08/10/2004, <http://www.eib.org/news/press/press.asp?press=2848>

²⁴⁴ EIB Press Release: EIB loan for Volkswagen in Brazil, 20/12/2000 <http://www.eib.org/news/press/press.asp?press=548>

²⁴⁵ EIB Press Release: EIB loan for Volkswagen in Argentina, 22/06/2001, <http://www.eib.org/news/press/press.asp?press=115>

²⁴⁶ CEE Bankwatch Network and Friends of the Earth International: "The European Investment Bank in the South: In Whose Interest?", February 2006, <http://www.bankwatch.org/publications/>, p.25

²⁴⁷ EIB Press Release: Mexico: EIB loan of EUR 70 million for Volkswagen de Mexico, 08/10/2004, <http://www.eib.org/news/press/press.asp?press=2848>

²⁴⁸ CEE Bankwatch Network and Friends of the Earth International: "The European Investment Bank in the South: In Whose Interest?", February 2006, <http://www.bankwatch.org/publications/>, p.25

²⁴⁹ CEE Bankwatch Network and Friends of the Earth International: "The European Investment Bank in the South: In Whose Interest?", February 2006, <http://www.bankwatch.org/publications/>

²⁵⁰ CEE Bankwatch Network and Friends of the Earth International: "The European Investment Bank in the South: In Whose Interest?", February 2006, <http://www.bankwatch.org/publications/>, p.22

²⁵¹ CEE Bankwatch Network and Friends of the Earth International: "The European Investment Bank in the South: In Whose Interest?", February 2006, <http://www.bankwatch.org/publications/>

²⁵² BBC website: "Air Pollution Causes Early Deaths", 21st February 2005, <http://news.bbc.co.uk/2/hi/health/4283295.stm>

²⁵³ Communication From The Commission To The Council And The European Parliament: Keep Europe moving - Sustainable mobility for our continent: Mid-term review of the European Commission's 2001 Transport White Paper, 22.06.06 p.8

D1 flyover bridge, Povazska Bystrica, Slovakia

In June 2006, the EIB signed a contract with the Slovak government to lend EUR 50 million for the expansion of the D1 motorway linking the country's two biggest cities, Bratislava and Kosice, and forming part of the Trans European Corridor V, branch A.

The project has been subject to protests from local citizens and NGOs for almost a decade as the 9.6 kilometre section between Sverepec and Vrtizer includes a flyover bridge which is projected to run forty metres above residential houses in the city of Povazska Bystrica, causing excessive noise and pollution levels, and forcing the expropriation of some residents' homes. The Environmental Impact Assessment (EIA) procedure was repeated twice because of the reluctance of the transport ministry to accept an initial variant that would have avoided these homes, but in the end the variant which is now planned is not among those recommended in the study at all.

Having had their concerns largely ignored during the supposed consultation process, the affected community has now launched a lawsuit to try to stop the projects. The EIB is withholding funds until the lawsuit is resolved, but the fact that the loan has been signed at all illustrates the deficiencies in the EIB's consultation and project appraisal process.

For more information on the case, see Bankwatch's website at: <http://www.bankwatch.org/project.shtml?w=147578&s=1926433>

However, pollution also needs to be taken into account for any projects which may cause a knock-on increase in traffic, ranging from local projects like shopping centres and waste treatment facilities to larger projects such as airports and ports.

Rotterdam port's impact on air quality

In recent years the EIB has financed:

- Container terminals at the port of Rotterdam (2000) EUR 100 m
- New container terminal at the port of Rotterdam (first phase) (2004) EUR 200 m
- New container terminal at the port of Rotterdam (second phase) (2006) EUR 100 m

While, as we have seen, shipping in general has lower external costs than either aviation or road transport, it must be recognised that building new port facilities will also cause an increase in land-based transport.

Although Rotterdam is lucky to be exposed to air from the North Sea, pollution is already a problem:

"Air quality problems differ spatially: the ring road, the waterfront and many inner-city roads do not meet the NO₂ standards with traffic being the main problem... Freight trucks, from all over Europe, are a major source, mainly on the ring road and the feeder roads for the port-industrial area. On the waterfront ships add to an already high city background. In all areas where NO₂ is a problem, PM10 is a problem as well. In addition PM10 is a general problem with background concentrations already exceeding the limit value for daily averages half of the Rijnmond area."²⁵⁴

Air quality in Rotterdam is poor and will be worse than is allowed under EU air quality regulations even in 2020 (when vehicles are expected to be cleaner). NO₂ will remain a problem, especially along busy roads, and in many locations (in the city and in the port) the 24-hour limits for PM10 will be exceeded.²⁵⁵ This raises serious questions about whether the health of local people has been adequately taken into account during the project appraisal process.

²⁵⁴ CITEAIR Air Quality In Europe website: <http://www.airqualitynow.org/index.php?id=142>, viewed 01.12.2006

²⁵⁵ Air Quality in Rotterdam: Strategische Milieubeoordeling bij Deel 3 PKB PMR Ministry of Transport, 2006, p.41 (Strategic EIA accompanying part 3 of the spatial planning document for the Mainport Rotterdam Project)



8. Environmental Impact Assessment (EIA), public participation and impact on nature

As shown in the various case studies above, the EIB's transport projects have too often conflicted with EU nature protection and environmental aims, not only concerning biodiversity conservation, but also in areas such as air quality. This is the result of an inadequate project appraisal process which does not adequately ensure that public consultation and EIA processes are carried out fairly and in a timely manner, and does not sufficiently ensure that the results of those processes are taken into account by decision-makers. The EIB has been too willing to accept national authorities' assurances that procedures have been adhered to and too willing to ignore concerns raised by the public and NGOs. This is particularly the case with projects outside of the European Union, but as we have seen with the Heathrow and Schiphol cases, the bank often pays too little attention to the issues raised within the EU as well.

In theory the EIB could help to improve transparency in projects by disclosing relevant documents in order for stakeholders to assess the project's strengths and weaknesses. However information disclosed by the EIB on projects is not sufficient, even compared to other IFIs. The nature of the project is often unclear: for example when the EIB supports an airline, it is not clear whether it will result in expansion of capacity or not, and when it supports the car industry, it is not clear whether the loan will support existing production or new production, and whether the resulting vehicles will meet CO₂ emissions targets.

Stipulations from the EIB for EIA studies and procedures need to be much more rigorous, including re-

alistic traffic projections and GHG emissions predictions, and projects need to be based on plans which have undergone thorough Strategic Environmental Assessments (SEA), in line with EU legislation. The EIB needs to follow the EIA and public consultation process much more carefully and ensure that all relevant concerns have been taken into account. The experiences in the D1 flyover bridge case in Slovakia and the Sofia Airport expansion show that the bank has not done this satisfactorily.

The EIB should not rely solely on the word of the project promoter but should also independently verify the resolution of issues raised through direct consultations with local residents and civil society groups. It is not satisfactory for the EIB to suspend financing for a project on environmental or social grounds only if it is proven in court to violate legislation, as this puts the burden of proof on local residents who are affected by the project through no fault of their own.

D8 motorway, Czech Republic

The D8 motorway is part of the Berlin - Prague - Budapest - Sofia - Istanbul European multi-modal transport corridor IV. From Prague, the D8 heads north and connects with the German A17 motorway in the Eastern Ore Mountains (Vychodni Krusne Hory/ Osterzgebirge).

The D8's construction has a ten-year controversial history, with the two most harmful sections – both financed by the EIB – being left until last: the 16.2-kilometre long section across the Ceske Stredohori Protected Landscape Area, and the 23.3-kilometre

Impacts on nature and public participation

The EIB has been too willing to accept national authorities' assurances that procedures have been adhered to and too willing to ignore concerns raised by the public and NGOs.

long section between Trmice/Usti nad Labem and the German border (also financed by the EU's ISPA fund). Both cross sites of outstanding biological value. The second section touches the top plateau of the Eastern Ore Mountains which experts mapping sites for NATURA 2000 have recommended to be declared a Specially Protected Area according to the EC Birds Directive.

In 2005, the section that was supported by ISPA and EIB was criticised by the National Competitiveness Protection Authority for the non-transparent tender for the construction of a bridge on the Czech-German border. Furthermore, the construction of the Panenska tunnel has led to the acid poisoning of the Libouchec stream, that until recently was "trout water".

The D8 project amply illustrates the basic contradiction between the declared European priorities of nature protection and combating climate change and the attitudes of project promoters, who remain stuck in the distant past when there was no public discussion of alternatives. The fact that the EIB has supported this project shows that it has either been unwilling or incapable of ensuring that its transport investments are coherent with EU policies on nature protection.

For more information see the Bankwatch website at: <http://www.bankwatch.org/project.shtml?w=147578&s=153963>

Sofia airport expansion, Bulgaria

Note: more information on the airport's troubled construction is available in the case study on Strabag in section 6.2

Sofia airport is situated within the city of Sofia, on two Trans European Corridors (TENs) – N4 and N8. In the 1990s it was decided to extend the airport with an additional runway and terminal building, subjecting the Sofia districts of Vasil Levski and Hristo

Botev, the town of Vrazjebna and the residential areas Nova Mahala and Dolni Bogrov to additional noise.

The new terminal adds a capacity of 2.6 million passengers per year to the current traffic of just under 2 million passengers per year,²⁵⁶ causing estimated new CO₂ emissions of 676 000 tonnes per year.²⁵⁷

The EIB approved a loan of EUR 60 million in 1997,²⁵⁸ before a proper plan had even been drawn up. The EU also provided financing in the form of a Phare grant for EUR 7.6 million for technical assistance in project planning, design and supervision, and for management of the airport and an ISPA (Instrument for Structural Policies and Accession) grant of EUR 50 million. The Kuwait Fund for Arab Economic Development provided further financing.²⁵⁹

According to NGOs the EIA process for the project was highly unsatisfactory. The new runway and the new terminal were assessed separately, so the cumulative and real impact of the project on human health and the environment has not been assessed. The EIA was approved even though it pointed out that the water purification system had shortcomings and that the runway would cross a bird migration route, posing a danger for both birds and air traffic. The approval was subject to 20 conditions, but several of these have not been implemented. The EIB stated that it "carefully reviewed the EIA processes undertaken for the project"²⁶⁰, but if this is the case then the EIB lacks knowledge of EIA legislation and best practice.

The case illustrates both the insufficiency of the project appraisal process within the EIB and its willingness to rely on the word of project promoters without independently verifying their claims.

For more information on the earlier stages of the project see Za Zemiata's website: http://www.zazemiata.org/bw/airport/index_en.php

²⁵⁶ European Commission Press Release: Opening of new terminal for Sofia airport co-financed by the EU, 28.12.2006, <http://www.europa.eu/rapid/pressReleasesAction.do?reference=IP/06/1905&format=HTML&aged=0&language=EN&guiLanguage=en>

²⁵⁷ See section 5 on climate change for details of estimate calculation.

²⁵⁸ EIB Press Release: Bulgaria: EIB loan for upgrading Sofia airport, 10.09.1997, <http://www.eib.org/news/press/press.asp?press=2023>,

²⁵⁹ EIB website: "Sofia Airport", 03/12/2002, <http://www.eib.org/news/news.asp?news=49>, viewed 12.01.2007

²⁶⁰ EIB website: "Sofia Airport", 03/12/2002, <http://www.eib.org/news/news.asp?news=49>, viewed 12.01.2007

Impacts on nature and public participation

Lack of Strategic Environmental Assessment (SEA) on Polish National Roads Programme

The EIB has an obligation to ensure that projects within the EU adhere to both the EU Directive and national SEA legislation. In its Environmental Statement 2004, the EIB explicitly states that when different laws impose different requirements, the stricter applies. Yet the bank is currently the subject of a complaint to the EU Ombudsman by Polish Green Network (PGN), which argues that in 2006 the EIB approved financing for the project entitled: "*Poland Road Modernisation*"²⁶¹ without ensuring that the National Road Programme had been subject to an SEA. Although not required by EU Directive 2001/142/EC in this case, an SEA was required for plans and programmes in the transport sector at the national and regional level which are required by legislative, regulatory or administrative provisions, according to the Polish Environmental Protection Act dated April 27, 2001²⁶².

After being contacted by PGN, the EIB promised to question the Polish authorities on whether an SEA was required for the Road Programme and to contact PGN. It did not contact PGN again, but later claimed, in response to the complaint to the EU Ombudsman, that the Road Programme did not require an SEA as it was merely a financial plan to



support planned road investments. The EIB accepted the explanation given by the Polish government without seeking any independent legal opinion on the matter. However PGN rejects the explanation given as the Road Programme actually sets out the priorities for investments, so it is not merely a financial plan.

The case is ongoing but illustrates the EIB's insufficient will in implementing its own environmental statement. It is not sufficient to simply accept a project promoter's opinion on legal issues. Instead of condoning the avoidance of SEA by project promoters, the EIB should seize the opportunities offered by relevant legislation to improve the sustainability and coherence of the projects it promotes.

²⁶¹ EIB website: <http://www.eib.org/projects/loans/project.asp?loan=9186531>, viewed 18th January 2007

²⁶² This law has since been updated and would no longer require an SEA for this programme, but was valid at the time the project was approved.



9. Conclusions and recommendations

Given the EIB's status as an investor of public money both within and outside of the European Union, it is imperative that the Bank's financing directly benefits people and the environment. **Financing from the EIB is a privilege, not a right, and its financing should therefore be used for only the most socially and environmentally useful projects.** The EIB is well placed to lend for such projects: having a mandate to promote EU policy, and being a non-profit institution, it is able to finance innovative projects which may not have high economic returns but which serve a public interest objective. According to Article 18 of its statute, **the EIB should only finance projects when financing is not available from other sources on reasonable terms.** However, the EIB's own evaluations have found numerous cases in which other financing would have been available, raising questions about the rationality of using its resources in these cases.

This report has identified problems with the aims and objectives of the EIB's transport investments, as well as with the implementation of its rules and guidelines, which have led to too great a proportion of the bank's transport investments going to environmentally and sometimes socially unsustainable projects. **Globally over half of the EIB's transport investments went to roads and air transport between 1996 and 2005 – the least sustainable forms of transport – and in central and eastern Europe this figure is over 68 per cent.**

The EIB claims to follow EU transport policy but this has been applied selectively. The EIB has

taken on individual policies such as the construction of the TEN-T network but has not ensured that its financing works to further its main objectives instead of supporting large prestige projects. **The EU White Paper on Transport's most environmentally important aims are not being furthered by the EIB's investments. In particular the EIB does not recognise the EU's aim of controlling the growth of air transport, seeking instead to mitigate its environmental impact.** In practice this has been limited to token measures which cannot compare with the overall environmental impact of aviation.

Although the EIB is investing in urban public transport and rail, road and air traffic has been more heavily supported, thus maintaining an unfavourable modal split. An indicator of this trend is the fact that the EU-15's CO₂ emissions as a whole increased by 7% between 1990 and 2004 whereas its emissions from transport increased by 31.4%.

The EIB does not appear to have targets for financing sustainable modes, and it does not seek to balance its portfolio by actively seeking out projects which would further EU policy objectives. As a result, its investments are a series of client-driven projects, most of which comply with one EU policy objective, but much fewer of which avoid contradicting other policy objectives. For example, most projects can be justified as enhancing social and economic cohesion, but on the other hand many projects increase the EU's CO₂ emissions considerably. In such cases, **it has tended to be economic objectives which have taken priority over environmental**

Conclusions and recommendations

EIB investments are a series of client-driven projects, most of which comply with one EU policy objective, but much fewer of which avoid contradicting other policy objectives.

objectives, as can be seen for example with the EIB's support for aviation.

The EIB's environmental criteria tend to be limited to making sure that projects remain within national and EU law – though even this is not always achieved – and that the environmental costs of the projects do not make the project economically unviable. However, this is not sufficient to guarantee that the EIB finances environmentally sustainable projects as in practice transport does not pay its external costs so environment-related costs are not likely to render a project economically unviable.

In practice **the EIB lacks the capacity to assess the environmental impacts of its transport projects sufficiently**, which has led to the approval of some projects damaging to biodiversity, air quality and therefore potentially to people's health. The EIB often relies too heavily on the word of local authorities, which have no interest in admitting that there are problems with projects or opposition to them. Instead of taking a precautionary approach and staying away from projects which are subject to heavy opposition from local residents because of noise or air pollution, it appears that the EIB is willing to finance projects unless they are actually proven in court to contravene national or EU law, thus transferring the burden onto local residents to prove that a project is illegal.

The EIB's climate change statement is weak, treating climate-change-related investments as an added extra rather than integrating CO₂ reduction objectives into its entire portfolio. It calculates climate-related costs in economic terms such as the costs for buying carbon credits, but it is hard to imagine a case where this would lead to the bank refusing to finance a project. In the transport sector, the EIB's investments in the road and air sectors are particularly problematic concerning GHG emissions. An estimate of the future potential CO₂ emissions from a selection of the EIB's airport expansion projects showed that together the new passenger flights are likely to result in extra emissions greater than the entire annual CO₂ emissions of New Zealand, Norway, Slovakia, Ireland or Switzerland. **Without clear commitments to refuse financing for climate-damaging projects, the EIB's more climate-friendly investments will have little impact.**

So far the EIB does not have any policies limiting or halting financing for any industry sector, no

matter how environmentally harmful. The EIB's most controversial loans benefiting private companies in the transport sector are its air transport investments: it has supported aircraft manufacturers, airlines and airport companies, and therefore the expansion of air traffic, which is in direct contradiction with the EU White Paper's objective of controlling the growth of air transport.

The EIB's lending to the car manufacturing sector is much more than its direct lending to any other industry sector – again raising questions about the justification for supporting a private industry manufacturing products only affordable to some citizens and contributing significantly to congestion and GHG emissions.

As well as the general question of support for certain sectors, there is also the question of the degree to which supporting private profits is acceptable. The EIB tends to rely on project promoters to assess this, **but the PPP cases outlined in this report indicate that the EIB's procedures are insufficient to ensure that the public interest is being served and that the PPP structure offers value for money compared to public procurement.** Due to the EIB's focus on infrastructure construction projects, construction companies are large beneficiaries of its financing. Though this is not unusual, there have been some cases in PPPs where excessive profits appear to flow to companies at the expense of transport users or taxpayers.

An important reason for the deficiencies in the EIB's transport investments is that **the EIB lacks a clear strategy for the transport sector.** Its priorities for transport investments and eligibility criteria are extremely broad, and can accommodate almost any project. There are few projects which cannot be claimed to contribute to regional development, EU integration, or increasing economic activity, though as we have seen these claims are often based on assertions rather than evidence, as studies such as those by the SACTRA committee (see above) have confirmed that **the economic effects of infrastructure construction are not always positive.**

Without a clear transport sector strategy it is impossible for the EIB to ensure that its investments are contributing to sector-specific aims such as modal shift, and **investments are made project-by-project,**

Conclusions and recommendations

without an adequate assessment of their cumulative impacts on climate change or modal split.

Recommendations:

The EIB needs to dramatically improve its project selection procedures to transform itself from a client-driven bank financing a series of transport projects into a truly policy-driven bank that succeeds in balancing the different transport policies of the EU, fully integrates environmental considerations into transport financing and contributes to developing more sustainable transport:

Portfolio-related recommendations:

1. The EIB must halt investments into aviation.

The industry is the fastest growing source of CO₂ emissions causing climate change, the 2001 White Paper sought to control its growth, and it has been shown that its perceived economic benefits have been exaggerated – yet aviation still receives massive, unjustified public subsidies.

2. Investments in rail, urban public transport, and inter-modal transport must continue to increase and must make up the vast majority of the EIB's transport investments in each country.

These projects may include:

- railway infrastructure and passenger rolling stock, particularly that which is aimed at improving cross-border interoperability
- integrated urban public transport systems, including innovative pricing systems such as all-in-one inter-modal travel-pass cards
- suburban and regional transport systems
- non-physical infrastructure and transport management projects such as the ERTMS (European Rail Traffic Management System) and IT solutions to improve the efficiency of logistics chains.
- inter-modal facilities

3. Maintenance or safety improvements should become a priority for the EIB financing in the road sector, followed by support for secondary road networks. In any road projects, alternatives (including the zero alternative – no construction) need to be assessed prior to the financing decision and environmental damage needs to be avoided. There must be no damage to present or planned protected natural



areas. 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.

4. Support to projects limiting transport growth needs to be stepped up.

 These may include:

- urban pedestrianisation projects,
- the construction of urban cycle path networks and other urban cycling facilities,
- projects which specifically reduce the need for the transportation of certain goods, for example local food schemes.

5. Loans should only be given to the car industry for R&D for more efficient, cleaner and safer technologies, not for manufacturing.

Process-related recommendations:

6. The EIB should prepare, in consultation with the public, its own transport sector operational policy, stating what its transport priorities are, setting targets for them, and showing how it is promoting EU goals on transport, environment and regional cohesion. This would require the recruitment of policy experts able to integrate social and environmental goals with those of transport policy.

7. The EIB's project eligibility criteria must promote environmentally acceptable transport solutions with low climate impacts and ensure that projects can be excluded from financing on environmental or social grounds. Transport projects in non-EU countries must meet the same criteria to avoid double standards and the offsetting of benefits gained in EU countries.

Conclusions and recommendations

8. The EIB needs to set year-on-year limits and targets for reductions in the greenhouse gas emissions from its projects, both individually and cumulatively, and carry out annual emissions audits. This should include all projects resulting in traffic generation, eg. shopping centres, industry investments etc. **The climate impact of a project must be assessed separately from economic costs** and clear criteria should be set for excluding projects with significant GHG emissions.

9. The EIB must ensure the transparency of its projects and strong public scrutiny over them. This is especially important in PPP projects and contracts as PPP arrangements are often extremely complex.

10. The EIB must develop criteria for excluding underperforming companies and those which have been convicted of corruption.

Project appraisal process-related recommendations:

11. Projects should be based on a thorough national or EU transport strategy sharing the main goals of the EU White Paper on Transport and subject to public consultation and strategic environmental impact assessment (SEA). Support from the EIB, especially for TEN-T projects,²⁶³ must be condi-

tional on the existence of an SEA of the plans and programmes containing the projects.

12. The EIB needs to be much more rigorous in its verification of project promoters' claims regarding environmental impacts and public participation processes. EIA processes and other public consultations need to be independently monitored by contacting civil society groups during the project appraisal process and its conclusions need to feed into the decision-making process of the EIB Board.

13. In PPP projects, a thorough and fair analysis needs to be made on whether a PPP represents the best value for money compared to public procurement, and the EIB needs to be much more active and rigorous in ensuring the quality of this. Public access to such analyses is a must.

14. The EIB must be more rigorous in applying EU standards in projects outside of the EU, particularly concerning environmental and labour issues. If the EIB does not have the capacity to carry out proper appraisal and monitoring it should avoid financing projects in which such issues could arise.

15. The EIB needs to interpret Article 18 of its statute literally, ie. it must not finance any project able to be financed by other sources at reasonable rates.

²⁶³ Also required by art.8 of the TEN-T guidelines (884/2004/EC)

Appendix 1

Table 3. EU 15 Transport CO ₂ emissions and increases 1990-2004. in Gigagrams				
	1990	2004	Share of total CO ₂ emissions inc. aviation and shipping, 2004	Per cent increase of CO ₂ emissions 1990-2004
Total CO₂ emissions all sectors excl. international aviation and shipping²⁶⁴	3 357 000	3 506 000	-	4.4%
Total CO₂ emissions inc. international aviation and shipping²⁶⁵	3 521 566	3 767 659	100%	7%
Transport without international aviation and shipping²⁶⁶	689 172	859 866	22.8%	24.77%
Transport inc. international aviation and shipping²⁶⁷	853 738	1 121 525	29.8%	31.4%
CO₂ emissions from int. aviation²⁶⁸	61 293	114 311	3%	86%
CO₂ emissions from domestic aviation²⁶⁹	17 517	23 342	0.6%	31.4%
CO₂ emissions from international shipping²⁷⁰	103 273	147 348	3.5%	43%
Road transport²⁷¹	637 400	801 103	21.3%	26%
Inland shipping²⁷²	19 359	21 087	0.6%	9%
Rail²⁷³	8 338	6 410	0.2%	- 23%
Other transport (eg. airport and port ground operations)²⁷⁴	6 558	7 924	0.2%	21%

Gg = Gigagram = Kiloton

²⁶⁴ European Environment Agency: Annual European Community greenhouse gas inventory 1990–2004 and inventory report 2006 - Submission to the UNFCCC Secretariat, 7th June 2006, p.13

²⁶⁵ Calculated from European Environment Agency: Annual European Community greenhouse gas inventory 1990–2004 and inventory report 2006 - Submission to the UNFCCC Secretariat, 7th June 2006, p.13, p. 223-225

²⁶⁶ European Environment Agency: Annual European Community greenhouse gas inventory 1990–2004 and inventory report 2006 - Submission to the UNFCCC Secretariat, 7th June 2006, p.155

²⁶⁷ Calculated from European Environment Agency: Annual European Community greenhouse gas inventory 1990–2004 and inventory report 2006 - Submission to the UNFCCC Secretariat, 7th June 2006, p.155, 223-224

²⁶⁸ European Environment Agency: Annual European Community greenhouse gas inventory 1990–2004 and inventory report 2006 - Submission to the UNFCCC Secretariat, 7th June 2006, p.224

²⁶⁹ European Environment Agency: Annual European Community greenhouse gas inventory 1990–2004 and inventory report 2006 - Submission to the UNFCCC Secretariat, 7th June 2006, p.159

²⁷⁰ Estimated from European Environment Agency: Annual European Community greenhouse gas inventory 1990–2004 and inventory report 2006 - Submission to the UNFCCC Secretariat, 7th June 2006, p.225

²⁷¹ European Environment Agency: Annual European Community greenhouse gas inventory 1990–2004 and inventory report 2006 - Submission to the UNFCCC Secretariat, 7th June 2006, p.161

²⁷² European Environment Agency: Annual European Community greenhouse gas inventory 1990–2004 and inventory report 2006 - Submission to the UNFCCC Secretariat, 7th June 2006, p.171

²⁷³ European Environment Agency: Annual European Community greenhouse gas inventory 1990–2004 and inventory report 2006 - Submission to the UNFCCC Secretariat, 7th June 2006, p.169

²⁷⁴ European Environment Agency: Annual European Community greenhouse gas inventory 1990–2004 and inventory report 2006 - Submission to the UNFCCC Secretariat, 7th June 2006, p.174

