Change the lending, not the climate

The European Investment Bank's dirty energy tendencies are eclipsing its advances on clean energy – and undermining EU climate targets

December 2009

- EUR 18 billion or 49 percent of energy portfolio of the European Investment Bank between 2002-2008 went for gas, oil and coal
- EUR 7 billion was invested for energy in the Global South by the EIB between 2002-2008; 93 percent of this money went to oil, gas, large hydro and transmission
- EUR 1.39 billion loaned in 2008 by the EIB for renewable energy in the EU has to be seen in the context of the estimated EUR 40 billion required to meet the 2020 targets

The problem, policy solutions and finance

There is now a prevailing consensus that climate change is one of the most urgent global problems, requiring fast and strong action. The need to both stamp out fossil fuel addiction and to stimulate energy efficiency measures on a large scale are recognised as core solutions to climate change. As the Intergovernmental Panel on Climate Change put it in 2007 (backed up by a wide range of subsequent studies that have even gone further), the economies of the world's developed countries need to be decarbonised by mid-century, with mid-term reductions by 2020 of 25-40 percent of 1990 levels of carbon dioxide equivalent in the atmosphere.

Such vital, radical change, required to stabilise climate change at safe levels, encompasses a wide revolution in how the world's economies are organised and fueled. This cannot happen without proper stimulation. Policy incentives for clean business, prices for carbon, support from public funds and complex monitoring and compliance need to be established and implemented. Financial institutions, whether private or public, need to follow this path – including the European Investment Bank.

In recent years there has been a tremendous rise in the EU's energy and greenhouse gas regulations. Among the most important developments are binding national targets – to be achieved by 2020 – for EU member states governing the share of renewable energy in final energy consumption. Improvements in energy efficiency are also required by EU regulation. By implementing these and additional targets, the EU as a group is looking to achieve at least a 20 percent reduction (based on 1990 levels) in greenhouse gas emissions by 2020. At the same time, individual states have their own greenhouse gas mitigation targets for the housing and transport sectors.

High targets come with high price tags

The current evidence on achieving the indicative targets for increasing the share of renewables in the energy mix (21 percent renewable electricity and 5.75 percent biofuels by 2010) reveals that the member states will need to make much greater efforts to meet their national targets. With the exception of Hungary, it is largely the countries of central and eastern Europe (CEE) whose progress the European Commission is not satisfied with and which are set to miss their targets. There are, however, more progressive states such as Germany, Denmark and the Netherlands that are on course to meet their targets. The binding targets for 2020, it should be kept in mind, are even more ambitious than the current ones which the CEE countries are largely in danger of missing.

With several of them being hit especially severely by the economic crisis, the CEE countries are encountering difficulties in attracting investors for green power production and in accumulating domestic capital for large investments. This general lack of finance for implementing the targets, aside from other factors, is creating a major obstacle and potentially undermining the achievement of the EU targets.

The various cost estimates of the investments needed to reach the 2020 targets across the EU range from EUR 13 billion at the low end (estimated by the European Commission) up to EUR 44 billion (estimated by the Dutch consultancy Ecofys) to be invested into energy infrastructure by 2020 on an annual basis.

The EU's bank undermines EU policy

A supposed key player in supporting EU member states to meet EU goals – including on perhaps the most pressing issue of all, climate change – is the European Investment Bank (EIB). Yet on the climate change challenge the EIB has thus far been taking a lukewarm approach.

The EIB, now – according to its website – the ‚EU's bank', is in fact the largest public lending institution in the world in terms of loan volumes. Its annual lending portfolio has progressively climbed from EUR 39 billion in 2002 up to EUR 59 billion in 2008. Within this mushrooming portfolio over this period, 9-16 percent has been annually loaned to the energy sector. This is double the figure that the better known World Bank has been lending to energy. In 2009 the EIB's total lending has grown further, to over EUR 70 billion, because of economic crisis dictated imperatives to aid EU recovery.

In the 2002-2008 period, the EIB loaned more than EUR 37 billion for energy projects. In this period, the EIB's energy portfolio featured gas lending – including liquified natural gas – most heavily, with a share of roughly 40 percent of overall energy lending. Transmission lending follows with an approximately 30 percent share, and then other unsustainable energy sources (coal, oil, nuclear and large hydro sources) share with renewables approximately equal chunks of the energy portfolio – roughly 15 percent. This ratio has not fluctated significantly even since renewable energy targets for the EIB were introduced in 2006.

Some positive steps, but far from enough

Although the EIB has been setting renewable targets for itself, such as the annual target of EUR 600-800 million for renewable energy, these have not been ambitious enough. The more ambitious target of 50 percent renewable share at generation by 2010 requires the EIB to double its renewable investments of 2008, assuming – rather improbably – that its energy lending volumes remain the same in the upcoming years. More generally, the current level of EIB investments into renewable energy – EUR 1.39 billion in 2008 for the EU member states – needs to be set against the estimate of around EUR 40 billion per year required to meet EU targets over the next decades.

From the data that is publicly accessible, it is not possible to scrutinize the EIB's lending for energy efficiency for the following reasons: it is spread across all sectors (such as transport or innovation); the EIB does not make available any accounting for energy savings when assessing the projects; and there are no targets for energy efficiency.

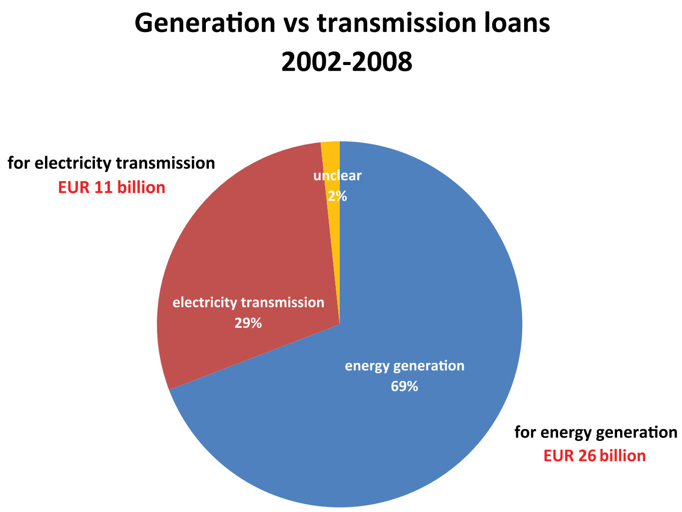
While the EIB has been backing good energy efficiency initiatives in western Europe in recent years, the grey area hanging over the EIB's energy efficiency efforts is very unfortunate given the enormous potential for the bank to be making a distinct, measurable difference in this field.

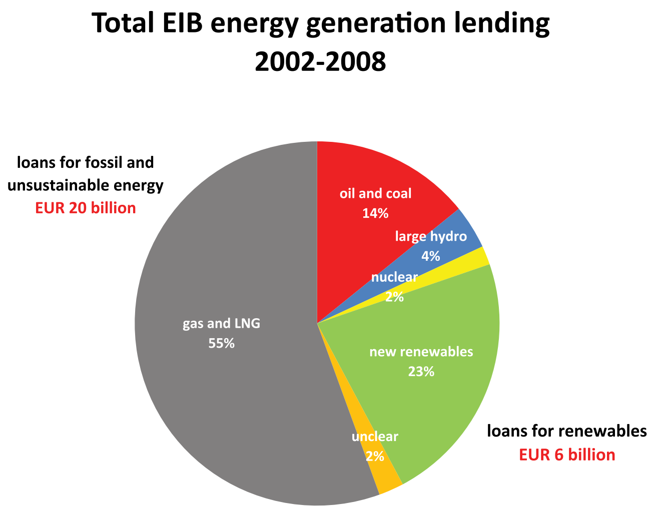
First and foremost, there is enormous potential for energy efficiency, especially in the CEE region, which can substantially contribute to meeting EU targets and to mitigating climate change in the most efficient way – yet funding is not forthcoming in the required volumes. Second, improving energy efficiency in housing is widely viewed as one of the best anti-crisis measures – it creates new jobs, especially in regional SMEs, stimulates clean businesses and economic development and, ultimately, saves energy bills for households. It is also a cohesion measure as it alleviates energy poverty and strengthens energy security. Third, other public banks, such as the European Bank for Reconstruction and Development, have energy efficiency accounting already in place and scrutinize their projects on this basis before ultimate funding decisions.

Renewables put in the shade by gas, oil, coal, large hydro and nuclear

EIB lending between 2002 and 2008 for energy generation alone saw unsustainable and fossil energy projects accounting for three quarters of all loans, with renewables projects comprising the remaining quarter. In absolute terms this means that the EIB poured more than EUR 20 billion into gas, oil and coal, large hydro and nuclear projects between 2002 and 2008. The EUR 6 billion invested by the EIB for renewable energy generation in the same period has clearly been dwarfed by unsustainable energy lending, and the positive climate effects are thus being seriously undermined. On average since 2002, for every million spent on renewables, the EIB has provided 3.3 million to gas, oil, coal, nuclear or large hydro.

Financing for fossil fuels, then, has continued to be a major preoccupation of the EIB despite numerous calls from the European Parliament to stop it. The parliament has repeatedly urged the EIB to focus on renewable energy and energy efficiency and to account for the full impacts of its financed projects since 2003. However, the main leverage over the EIB remains with the European Commission, which has been using it very marginally.





Dirty dealings magnified in the developing world

EIB finance of EUR 7 billion for energy has gone outside the EU member states in the 2002-2008 period. Analysis of the EIB's loans in the new member states and in the Global South (mostly Africa and Mediterranean countries) reveals that the EIB has done very little to support renewable energy in regions other than the EU 15. In developing countries, the EIB's lending has been even less sustainable than inside the EU – non-renewable energy and large transmission projects received EUR 6.5 billion in the period in question, with renewable energy representing a mere EUR 321 million. There has clearly been a deeply skewed approach from the EIB, resulting in a major imbalance of dirty energy investments outside the EU's core old member states.

Recommendations

Climate change is an urgent challenge to us all and its effects are emerging with increasing acuteness around the world. It needs to be tackled primarily by a swift decline in domestic emissions from energy production. The EU's energy and climate targets for the next decade - although not yet sufficient - offer a practical framework to address the challenges.

Some countries, especially those in the CEE region, have been struggling to meet the fast-approaching targets for renewable electricity by 2010. Yet there has been hardly any support from the EIB to the region in this regard. The EIB continues to be heavily involved in the fossil fuel sector, while at the same trying to plug into renewables. Redirecting and boosting the EIB's investment billions into true solutions – solid renewable energy projects and energy efficiency schemes – is in member states' interest, in the environment's interest, and it is in the EU's economic interest. If the EIB and the EU are to lead the way into a low-carbon world, unequivocal changes in lending practices simply must happen.

Based on the findings of Bankwatch's analysis into EIB energy lending for the 2002-2008 period, the EIB has to start considering and implementing the recommendations below.

No more financing for fossil fuels:

- The EIB must adopt a plan for phasing out of fossil fuels and for starting to decrease its gas lending immediately, in accordance with the recommendations of the European Parliament. At the same time, it should redirect fossil fuel and other unsustainable (such as nuclear and large hydro) loans to energy efficiency and renewable energy. This also applies to the EIB's operations in the Global South.

As a first step:

- The EIB needs to significantly boost its renewable energy portfolio up to 2010 in order to safely meet its own target of 50 percent renewable energy share at energy generation. Large hydro power plants should not be counted as renewables due to their social and environmental impact, including high greenhouse gas emissions. The EIB should also go beyond this and propose and implement annual renewable lending targets until 2020 which fully address the climate change challenge and investment needs. For that purpose, the EIB needs to establish and implement a solid greenhouse gas and energy efficiency accounting methodology.
- In transmission lending, the EIB should start lending to smart grid and decentralised electricity systems and to the improvement of transmission networks, as well as the interconnections demanded by increased penetration of renewables.

In new member states:

- The EIB should primarily focus on energy efficiency. Such required lending for energy efficiency includes grant schemes for the major insulation of public buildings and housing, loans for improved energy management in industry, R&D in high-efficient technologies, and for the establishment of energy service companies particularly targeting savings in the industrial sector.

Change the approach:

- The EIB must radically back away from old-fashioned, large-scale energy projects and turn to small scale ones, in order to assist the 2020 targets.
- The EIB should develop specific financial instruments for small enterprises and households to exploit the most appropriate ways in individual member states for delivering substantial cuts in greenhouse gas emissions.
- The EIB must substantially boost its lending for renewable energy in the new member states and develop specific investment schemes into the sectors which deliver the most emission cuts.

About this paper: This fact sheet is a summary of the findings of an analysis of the European Investment Bank's energy lending between 2002 and 2008. It has been jointly researched by CEE Bankwatch Network and an independent energy consultancy. Published in November 2009.

Find out more: What has the EIB been doing for the climate? What do the EU member states need to do for the climate? Do these two compete, or correlate? When can renewables go wrong? Where is the EIB's information incomplete or inaccurate? Is the EIB going to achieve its renewable targets? How much should the EIB pay? **Read the full report at http://www.fossilfreeeib.org**

Take action: Sign up to a petition! Study the EIB's dirty energy lending via a Google map! **at http://www.fossilfreeeib.org**

For questions and comments: Katerina Husova at climate@bankwatch.org

CEE Bankwatch Network's mission is to prevent the environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation. **http://www.bankwatch.org**

This publication has been produced with the financial assistance of the European Union. The content of this publication is the sole responsibility of CEE Bankwatch Network and can under no circumstances be regarded as reflecting the position of the European Union.

Bankwatch is also grateful to the following donors for their ongoing support of our work: Charles Stewart Mott Foundation, European Climate Foundation, International Visegrad Fund, Oxfam Novib, Sigrid Rausing Trust, VROM – Dutch Ministry of the Environment and Spatial Planning.