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CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

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CEE Bankwatch Network response to Directory General Energy's stock taking document: Towards a new energy strategy for Europe 2011–2020

CEE Bankwatch Network welcomes the opportunity to comment on the document *Towards a new energy strategy for Europe (TESE)*. Our comments are based on fifteen years of experience of work on energy and environment in central and eastern Europe focused on the issue of environmental and social impacts of public financing for infrastructure..

In recent years the threat of disastrous climate change has entered the mainstream of international and European politics. The Intergovernmental Panel on Climate Change (IPCC) has no doubt that, in order to keep the temperature increase below 2° Celsius compared to pre-industrial levels and avoid catastrophic, runaway climate change, a dramatic reduction of emissions must happen very quickly. In October 2009 in line with the IPCC recommendations, the European Council called for at least 50 percent worldwide reductions and aggregate developed country emission reductions of at least 80–95 percent by 2050. **All decisions regarding the EU energy strategy until 2020 have to be put in the context of a need for a dramatic decrease of CO2 emissions by 2050.**

The EU has made a political commitment to halt biodiversity loss until 2010 and it was recently concluded during Green Week that this objective will not be reached. Biodiversity protection must take advantage of the synergy effect of several economic sectors, including energy, and must also be implemented through properly designed sectoral policies. Energy policy should therefore allow for only those energy infrastructure projects which do not deteriorate the state of the environment and the status of species and take into account climate change's effect on biological diversity in and outside of the EU.

Therefore, Bankwatch's would like to emphasise the following priorities for EU public financing that should be incorporated into a new energy strategy:

1. *The EU Energy Strategy needs to **centre on energy efficiency measures** and unlock energy savings potential by setting clear and adequate targets and pursuing reform of its policy and funding instruments.*

2. *EU external energy policy needs to **integrate the overarching objectives of the EU** defined in the Treaty and other EU policies: sustainable development, environmental and biodiversity protection¹, including long-term climate goals, promotion of human rights and development in the countries of the Global South.*
3. *The new Energy Strategy needs to give **clear policy objectives and funding priorities for EU funding** in the framework of Structural and Cohesion Funds as well as loans from the European Investment Bank. In the energy sector they need to concentrate on energy efficiency and renewables subsequently phasing out the economy based on fossil fuels and nuclear energy.*

¹ Article 11 of the TEU further stipulates the principle of environmental integration: *Environmental protection requirements must be integrated into the definition and implementation of the Union policies and activities, in particular with a view to promoting sustainable development.*

Priority 1

The EU Energy Strategy needs to centre on energy efficiency measures and unlock energy savings potential by setting clear and adequate targets and pursuing the reform of its policy and funding instruments.

The EU's TESE clearly points out that a large energy savings potential remains underutilised while reducing energy needs and promoting energy efficiency should be the cornerstone of a low-carbon energy system for Europe.

In particular CEE countries' energy systems are far from the EU 15 average of energy and carbon intensity, although the energy intensity of the new member states has been decreasing steadily in the last 15 years. The potential for energy efficiency measures is still immense and reducing energy use is the cheapest and easiest way to reduce GHG emissions and a prerequisite in preventing climate change.

The realisation of these potentials needs to be addressed by a European Energy Strategy, which should **set political priorities and energy efficiency targets both at national and EU levels but also has to provide targeted financial support to accommodate needs**. With shrinking public budgets and limited access to bank loans during the economic crisis CEE countries must turn to EU funds to unlock the potentials, leverage private capital and facilitate the transition towards a low carbon future.

1.1 EU energy policy – need for strategic approach and impact assessment

Current EU policy results in strengthening large European energy companies creating a threat of cementing the carbon lock-in for decades. Instead it needs to follow an approach which fosters a decentralised and regionalised low carbon and renewable energy system. Currently, security of

supply, carbon intensive production and energy distribution are prioritised rather than combating EU citizens' and business' dependence on imported energy. If such prioritization continues under conditions of increasing prices for primary energy resources, energy dependence and increased energy poverty will become serious issues for EU consumers and especially poorer Member States will be affected. It will result in even deeper disparities among Member States and higher energy poverty rates and .

We are looking forward to the Energy Road Maps to be prepared by the Commission, which will propose possible development paths for energy production and use in Europe until 2050. We hope to see a thorough strategic assessment of these paths, where the EU's sustainable development goals and the goal "to ensure safe, secure, sustainable and affordable energy for all, businesses and consumers alike"² are the guiding principles of assessment.

1.2 Financing projects that support energy efficiency rather than fossil fuel and nuclear

Energy savings and renewable energy programmes need upfront capital to unlock private investments and render these measures commercially viable. The EU's Structural and Cohesion Funds (SCF) should play the guiding role in the new EU Member States (NMS), where they can bridge the gap between the investment needs in infrastructure, buildings, renewable energy production and the available financial resources. By setting adequate environmental priorities the SCF not only stimulate sustainable investments in EE and RES directly, they also guide CEE countries towards sustainable development. Additional benefits will be reaped if these programmes are increasingly mainstreamed across other cohesion policy interventions via explicit requirements in project application forms, project selection criteria and public procurement.

Current EU policy and especially SCF allocations in the

2 (TESE, p.1)

NMSs provide support for big infrastructure projects which are easy for planning and administration, but in reality creating a lock-in into carbon intensive energy systems and crowd out funding for more sustainable solutions.

European Energy Strategy therefore needs to strengthen the European Commission's responsibility for determining the SCFs' spending priorities: all the Operational Programmes (OPs) must be approved by the Commission, which can decide to reject them if they don't provide sufficient guarantees or don't fit in the lines of the Cohesion Policy's objectives.

In countries where local and national authorities are not sufficiently concerned about environmental and climate issues, the role of EU support is central to complement and often lead national action. As they are set on long-term energy saving and GHG reduction objectives, the SCF can boost investments in those sectors where governments are not able or not willing to take action. **Thus clear and ambitious energy reduction targets have to become binding and the SCF need to provide financial means to meet those targets.** The current programming period's allocation for EE of 2.4% of the whole SCF³ is insufficient to unlock the efficiency and savings potential in CEE countries and needs to be increased accordingly.

1.3 Requirements for a sustainable EU Energy Strategy missing in the TESE:

Regionalization of energy systems

The best way for achieving energy security is to break existing European energy dependencies and build a renewable local energy supply chain. Meanwhile total energy demand needs to decrease. Therefore the EU

3 EC (2008a). Cohesion policy and energy challenge: boosting results in EU regions (IP/08/267). <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/267&format=HTML&aged=0&language=EN&language=en>;

EC (EC-DG Regional Policy, 2008b). Inforegio: Funds available – Division by Member State. : http://ec.europa.eu/regional_policy/policy/fonds/index_en.htm

should be much more ambitious in formulating its EE and RES targets and policies; MS policy implementation has to be subject to effective monitoring and adjustment mechanisms, and an EU-wide integrated grid has to be made generally accessible.

Reduction of energy demand should become top priority in the EU energy strategy.

Current EU energy policy is concentrating on security of supply instead of tackling demand. Thus EU policy is focusing on big infrastructure projects on gas and oil supply, security of the grid, etc. This approach – even with increased EE in the energy production and supply – cements end consumers' high energy consumption and dependence.

Small individual projects should be prioritised. Such decentralization of SCF for EE and RES will secure decentralization of the energy supply and production.

Small projects must be eligible for SCF. Administrative requirements should not be obstacles for implementation: since the scale of such projects is smaller the EC should secure smooth administration and effective procedures for project approval. In consequence corruption issues typical for the NMSs will be reduced.

Allocation of SCF towards numerous small and individual projects will realise not only huge energy savings in final energy consumption but will support local EE and RES businesses in the building sector and will create new green jobs during the crisis.

EE investments should be a priority in CEE, guaranteeing adequate funding and unlocking savings potentials.

The existing building stock is the major energy consumer in CEE countries and therefore political efforts and instruments should be focused on them. For instance, Ecofys (2006) has estimated that an investment of 180 billion Euro is necessary for the renovation of the existing building stock in the NMSs. An increased allocation from EU funds for retrofitting

of energy saving equipment to existing buildings is crucial.

Supporting RES

After energy efficiency, the second priority for EU policy and funding support should be the development of RES. These must be prioritised over energy projects for fossil fuel, nuclear and other carbon dependent projects with unclear results such as CCS.

Within RES support priority should be given to highly efficient measures and projects, e.g. heat/cooling from RES. Also small RES projects should be prioritised as they lead to decentralization and have a bigger multiplier effect on job creation and reduction of energy dependence of the end consumers.

The EIB should play a leading role in supporting RES in some countries of the EU. At the same time in line with the November 2007 resolution on trade and climate change passed in the European Parliament that calls for "the discontinuation of public support, via export credit agencies and public investment banks, for fossil fuel projects"⁴, the EIB should adopt a plan to phase-out fossil fuels by 2012 and start decreasing its fossil fuel lending immediately.

4 European Parliament resolution of 29 November 2007 on trade and climate change (2007/2003(INI)).

Priority 2

EU external energy policy should integrate overarching objectives of the EU defined in the Treaty and other EU policies: sustainable development, environmental and biodiversity protection, including long-term climate goals, promotion of human rights and development in countries of the Global South

One of the priority areas for the future strategy described in the TESE is a “*a strong and coordinated external energy policy*”, though **the document fails to address some important aspects of the EU external actions, namely long-term climate goals, promotion of human rights and development issues.**

The obligation for the EU to follow these principles was reinforced by the Lisbon Treaty. The wording of Article 21 of the Treaty of the European Union (TEU) makes it clear that the EU in its external actions is obliged to “*help develop international measures to preserve and improve the quality of the environment and the sustainable management of global natural resources, in order to ensure sustainable development, with the primary aim of eradicating poverty;*” as well as “*consolidate and support democracy, the rule of law, human rights and the principles of international law*”. It further states that “*The Union shall ensure consistency between the different areas of its external action and between these and its other policies.*” This means that the EU’s external energy policy shall contribute to advancement to these directions.

These obligations are binding for the European Investment Bank actions outside of the EU. The yearly lending for energy of this EU institution amounts to more than EUR 1 billion⁵ and may further increase, if

the EIB is given a mandate to manage EU climate funds committed under the Copenhagen accord. Notwithstanding these facts the text of TESE does not mention the EIB at all. There is need to define the role of the EIB in TESE having in mind its tasks and obligations from Article 21.

2.1 Long-term climate goals need to be at the heart of decision-making

In order to be in line with the European Council conclusions from October 2009 all decisions regarding EU external energy policy until 2020 have to be put in the context of a need for a dramatic decrease of CO2 emissions by 2050.

TESE must give a clear signal that the EU’s long-term climate commitments need to be at the heart of its external energy policy. Effectively this means that no new infrastructure serving more imports of fossil fuels to the EU may be supported in the framework of external actions.

Taking into account the need to slow down the increase of emissions also in the Global South, the EU’s external energy policy shall avoid supporting actions contributing to increased GHG emissions. Instead **EU external energy actions must concentrate on decentralised and zero-emission energy sources serving increased access to the electricity for the poor living in the Global South.**

The EIB needs to be mentioned in TESE in this context, giving it clear policy objectives in the energy area. Until now the EIB’s lending outside of the EU has been concentrating on climate-damaging projects and environmentally and socially harmful large hydropower projects, while its lending for new renewables constituted only EUR 321 million out of EUR 7 billion in the years 2002–2008.⁶

⁵ [Change the lending, not the climate](#), CEE Bankwatch Network 2009.

⁶ *Ibid.*

2.2 Development impact of the EU external energy policy

As mentioned above, under the Treaty of Lisbon eradication of poverty is one of the principles that must guide the EU's action on the international scene.

Sustainable development and the eradication of poverty are now an obligation of *all* external action, rather than being one of three objectives mentioned previously in Article 177 of the Treaty of the European Community. This greatly strengthens these provisions compared to the former treaty.

The need to mainstream the principles and objectives underpinning development cooperation also implies that stress has to be put on policy coherence, not only in development but in EU external actions more generally, including external energy policy.

The TESE proposal stresses the need to guarantee a „*high level of safety and security for energy supply and use for EU citizens*,“ without considering the impacts that this has on the life of citizens from the Global South. **Sustainable development leading to poverty eradication and ensuring access to energy for people in the Global South needs to become the main goal of EU external energy policy.**

The EIB must also be bound by EU external energy policy goals when financing projects outside of the EU. Until now the bank has tended to finance big dams and large scale fossil fuel projects, like the Bujagali Dam in Uganda and Chad–Cameroon oil pipeline⁷ with significant adverse social and environmental impacts clearly going against the principles of sustainable development.

2.3 Mainstreaming democracy and human rights into energy dialogue

The founding principles of the EU include such values as respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights,

including the rights of persons belonging to minorities. (TEU, Art. 2). These values apply to actions both at home and abroad, – a fact further reinforced by the Lisbon Treaty.

Increasing dependence on energy imports leads to the EU increasing cooperation with regimes with very poor human rights and democracy records. The most recent example is the EU's increased cooperation with Turkmenistan, a country known for its abysmal human rights record. In the Freedom House survey measuring the level of political rights and civil liberties Turkmenistan received the worst possible score, the same score as North Korea and Burma.⁸

Issues of human rights and democracy must be mainstreamed into the EU external energy policy, by formulating upfront conditions of the EU's engagement with countries like Turkmenistan.

Furthermore, the EU's proposed actions shall be screened against their implications for sustaining undemocratic regimes by strengthening the economic base of their existence in the countries where extractive industries are controlled by a few in power.

⁷ For more information on the impact of the projects see: <http://www.counterbalance-eib.org/Table/Projects>

⁸ Freedom in the World 2010, Freedom House.