

## Comments on EIB transport issues paper

June 24th, 2011

### STRUCTURE

#### 1) INTRODUCTION

#### 2) EIB Transport Policy

- need for clear objectives and targets to be delivered by EIB
- integrated approach for selection of the type of investments that will be supported by the Bank – Avoid-Shift-Improve principle and clear added value
- project selections – requirement that the projects are part of integrated transport plan that need to pass through SEA, climate assessment requested with EIA, no negative impact on biodiversity

#### 3) Instruments to enforce policy objectives – appraisal, monitoring and evaluation

#### 4) EIB Transport portfolio so far – need for radical shift

#### 5) Conclusions and recommendations

CEE Bankwatch Network welcome the revision of the EIB's transport policy and the opportunity to comment on the EIB's issues paper regarding the transport sector.

The EIB's transport policy is particularly important considering the importance of transport investments in its portfolio, as well as the transport sector's rising CO<sub>2</sub> emissions in the EU. Below we provide information that puts the issue of the EIB's transport policy into a wider context. We hope that the Bank will reflect on the concerns raised in our position and take them into account when answering the specific questions it provides for the consultation. We are convinced there is a lot that the Bank can learn based on its performance in recent years, since the approval of the current transport policy in 2007.

### INTRODUCTION

The EIB is one of the key institutions in implementing EU policy. Being both a bank, and having a mandate to support EU policy, it is one of very few institutions that can really influence EU infrastructure investments on a very large scale by careful use of its funds. The transport investments represent a large share of the EIB's portfolio in the EU 27. We welcome the fact that EIB considers its Transport Policy from the perspective of the recent EU policy documents like "Europe 2020 Strategy" and "Roadmap for moving to a competitive low-carbon economy in 2050".

Overall, the EIB needs to clarify what it wants to achieve with its transport sector lending. Will the EIB be contributing to the achievement of the EU goal of a decarbonised transport sector? Or is it seeking just slightly more efficient business as usual? Fuelled by what? With external costs paid by whom?

Without having a set up with a clear overall vision it will be extremely difficult to attain the required delivery of the best public value for the (limited) amount of money available.

In our opinion the Bank should make a strong commitment to support the European Commission initiative to reduce the emissions from the transport sector by 2050 by 60% comparing to 1990 level. To achieve this, the Bank should not further support every mode of transport to satisfy sectorial business or compromise interests but rather prioritise those which will bring the biggest desirable effect.

### Policy objectives

As confirmed by the White Paper 2011<sup>1</sup> primary objective of the EU transport policy is **greenhouse gas reduction from the sector**, which also entails a number of other important benefits such as **increased energy security** and a **reduction in other pollutants**. Additionally the EU White paper 2011 calls for:

1. Measurable and sector-specific reduction targets for greenhouse gas emission reduction.
2. “Move towards full application of ‘user pays’ and ‘polluter pays’ principles”, to internalise pollution and other external costs of the transport sector.
3. Shift from road to rail transport for medium distances (300km and more) and increase of the investments in rail infrastructure – an approach that is all the more important in central and eastern Europe, where railways are notoriously being neglected in favour of road constructions.

According to the European Environment Agency, in its 32 member countries, greenhouse gas emissions from transport (excluding international aviation and maritime transport) increased by 28 % between 1990 and 2007 and now account for more than 19 % of total emissions. If international aviation and shipping and the emissions tied to providing transport infrastructure, producing vehicles, exploration of oil and gas etc., are also added, then total transport sector emissions reach almost one-third of all emissions.<sup>2</sup> This rise in emissions represents an **alarming failure** by the EU and its member states and adds urgency to the need to take firm action on reducing greenhouse gas emissions from transport.

We welcome the EIB’s Climate Action program and the fact that transport constitutes a significant part of this Action. However we noticed that in 2010 EIB’s Sustainable Transport program in EU constitutes only 44.1% of the total transport (including transport equipment) lending in EU. Additionally, only a little more than 6% of the Sustainable Transport lending takes place in EU’s new Member States.

At the 2011 EIB Board of Governors meeting Bank climate change was recognised as one of the key priorities for the Bank operations. This gives the Bank a clear objective and a base to introduce more significant changes in its Transport Policy. **The Bank should adopt objectives in line with the EU Transport Policy’s objectives and more ambitious target for sustainable transport** (we refer to the target for the Climate Action included in the Bank’s Corporate Operational Plan 2011-2013) **and should in the first place ensure that this target is met in every region it operates in.**

Current EIB Transport Policy states:

*“The EIB pursues an approach that strives for the most efficient, most economic and most sustainable way of satisfying transport demand. This requires a mix of transport solutions, covering all modes”.*

Satisfying demand cannot be the goal of the EIB’s transport policy. There are spatial and environmental limits to mobility, and in addition demand is artificially high because of unrealistic pricing. **The EIB must support demand management through soft measures, and by actively seeking to finance projects that reduce transport demand, such as pedestrian and cycling facilities, local food schemes and pedestrian-based urban developments.**

In addition, the EIB should not confuse the whole transport system with the EIB’s contribution. While it is clear that all modes have relevance for the transport system as a whole, **the role of the EIB and other public financing bodies is to contribute to achieving policy goals that would not otherwise be achieved, such as greenhouse gas reduction and the support of more environmentally benign modes.**

In our opinion Climate Action objectives should be prioritise over the convergence lending in that way that convergence should not constitute the eligibility criteria for projects which do not meet sustainable transport criteria.

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<sup>1</sup> Roadmap to a Single European Transport Area - Towards a competitive and resource efficient transport system

<sup>2</sup> European Environment Agency, Towards a resource-efficient transport system: TERM report 2009, EEA Report No 2/2010, p.14

## Guiding principles

**The Bank Policy should also identify principles that will guide the Bank in appraisal of the transport projects.** Investment decisions made now will impact on the sector for several decades to come. If we invest in roads, we will get an increase in road transport. If we invest in rail we will contribute to the attractiveness of the rail transport. If we invest in measures to minimise transport demand, we can reduce transport demand.

**The European Environment Agency has repeatedly warned that transport demand and the dominance of road transport need to be addressed,** and pointed to the need to employ a mixture of Avoid-Shift-Improve policies:

*“Whilst none of the scenarios considered would deliver the desired 80% cut in CO<sub>2</sub> emissions by 2050 **the greatest savings potential arises from the combined package**, in which technological improvements that **reduce fuel consumption** are used alongside **measures to shift journeys to lower emission modes** and to **avoid the need to travel altogether**. It is clear therefore that we need to implement a package of policy measures that do not rely solely upon technology.”<sup>3</sup>*

In 2007 CEE Bankwatch Network launched a report entitled *Lost in Transportation*, which examined the EIB’s transport lending practices, and criticised the bank for lending too heavily for the most carbon-intensive modes of transport - aviation - especially airport expansion and fleet expansion - and road transport - especially motorway construction and car manufacturing. **The report found that the EIB too often simply follows client demand and does not examine the cumulative impact of its investments on achieving various EU policy goals**, preferring to concentrate on the simplest ones such as implementing projects designated under the Trans-European Transport Networks.

It also urged the EIB to pay sufficient attention to demand management and especially to modal shift, and **we are concerned that the EIB now seems to be trying to justify the abandonment of the Avoid-Shift-Improve (ASI) approach altogether and concentrating only on ‘Improve’.** In its issues paper the EIB writes:

*“There is now a widespread agreement that decarbonising of the sector should be at the centre of future transport policy in the EU. However, in contrast to ideas at the beginning of the century, there is now also an acceptance that modal shift away from the most carbon intensive modes cannot achieve the requisite emission reductions alone. The concept of “co-modality” – seeking energy efficiency and environmental improvements in all modes, each mode meeting demand in accordance with its own comparative advantage - is now broadly accepted.” (p.4 Developments since 2007)*

While we agree that decarbonisation of the transport sector should be at the centre of future EU energy policy, we wish to make clear from the outset that **we do not agree that the concept of “co-modality” is broadly accepted.** It is, in our opinion, merely a more technological efficiency-oriented version of the outdated and discredited “predict and provide” approach that will not enable the EU to adequately reduce GHG emissions.

What is missing in the current policy is the entire issue of demand side measures and investments into the maintenance of the already existing network. The EIB needs to assess scenarios of future transport needs and favour measures based on the Avoid, Shift and Improve approach – thus focused on prevention and on stimulating a shift to more environmentally friendly transport, that will contribute to de-carbonization and will meet other environmental, social, but also financial imperatives.

In this respect a focus on selective supplementary infrastructure measures - like e.g. user friendly public transport terminals, deeper integration of suburban/regional rail too the transport system in agglomeration areas, investments into the public logistic centres that would ease the development of combined transport - would be an appropriate way to proceed. Such measures have potential to achieve the required goals, and very often do not generate new transport, but rather contribute to the modal shift and behavioural changes. More precise analysis of the exact goals and methods of reaching them is necessary.

## Project selection criteria

The EIB needs to set up clear screening criteria to be used for the proposed measures and individual

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<sup>3</sup> European Environment Agency: Towards a resource-efficient transport system: TERM report 2009, EEA Report No 2/2010, p.29

projects to pass to a higher level of consideration. Those criteria need to be clearly linked to the following aspects:

- All the transport projects should be eligible under sustainable transport lending. EIB should not lend to projects which may not fall under this initiative irrespectively of the region of the Bank's lending
- Contribution to the de-carbonization of the sector (a credible methodology to assess the GHG aspects of the measures and projects must be in place), - climate assessment and assessment of alternatives in terms of mode should be requested as part of EIA process.
- Projects selected are part of integrated national / local transport plant that have passed through SEA process
- Compliance with the EU2020 goals,
- Respect for the NATURA 2000 sites,
- Respect for human settlements (e.g. eliminating noise, fragmentation aspect).

Only such measures and/or schemes that pass the exercise should be able to continue to a further level of consideration where also other aspects (Multi-Criterial Analysis, Cost-Benefit ratio) would be considered)

Currently the EIB policy states:

*"The EIB continues its strong commitment to the development of TENs. These are long-term investments with an essential role in achieving an efficient and cohesive Community-wide transport system."*

As the EU is reviewing its overall TEN-T policy, so should the EIB. **Any bank support for the Trans-European Network - Transport (TEN-T) should be conditioned by a thorough assessment of the climate impact and alternatives in terms of different modes and demand management solutions.**

*"Priority continues to be given to railways, urban transport, inland waterways and maritime projects as these are intrinsically the most promising in terms of reducing greenhouse gas emissions per transport unit."*

As we shall see below, **reality has not reflected this theoretical priority** given to the more environmentally benign modes. The EIB needs to be more pro-active in seeking out good quality projects in these sectors. **Rail, urban public transport and intermodal transport should make up the vast majority of the EIB's investments in each country.**

*"Further emphasis is given to RDI activities with vehicle manufacturers whatever the sector involved. This focuses primarily on ensuring energy efficiency, emissions reduction and safety enhancement."*

We agree that - provided there are clear results from the RDI activities in terms of efficiency and safety improvements - **RDI is an acceptable target for public financing. However this cannot be the main plank of the EIB's transport emissions reductions strategy, as it does not address the question of growing traffic volumes.** Regarding the EU's emissions reductions legislation aimed at reducing average new car emissions to 95 g CO/km by 2020, the EEA has warned:

*"Unfortunately, traffic levels are growing at around the same rate as we see average fleet emissions declining, meaning the net effect may still be far from what we want. There are initiatives to include vans and, with a longer time perspective, trucks into emissions regulations. But without complementary measures there is still a risk that some of the improvements will be balanced by the growth in traffic."<sup>4</sup>*

In addition, the increase in efficiency in itself, if not accompanied by rises in fuel costs, would to some extent lead to increases in transport. In 2009 the amounts lent for automotive RDI by the EIB were extremely high and it is to be hoped that such levels of support for the private automotive industry will not be repeated.

*"The Bank seeks to strengthen its assessment of the consequences of its projects in terms of energy consumption."*

This was welcomed, however the transport policy does not ensure that the EIB would no longer finance

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<sup>4</sup> European Environment Agency: Towards a resource-efficient transport system: TERM report 2009, EEA Report No 2/2010, p.8

projects with high climate impacts, nor that the overall climate impact of the EIB's transport portfolio would improve. **The bank needs to develop criteria for excluding projects on the basis of their climate impact.**

### **Specific selection criteria**

*“Automotive sector. Strong support for RDI projects aligned to EU research and environmental policies. Where there is no RDI component, support to manufacturing shall be limited to projects for small, fuel efficient vehicles in convergence regions. In all cases, projects supported should be fully in line with the orientations of EU environmental and energy efficiency policies.”*

**The EIB, in our opinion, should not finance car manufacture at all.** This is not a public interest objective and should be carried out through private investment. If the EIB wishes to support employment in convergence regions it would be much more far-sighted to support emerging industries such as renewable energy and energy efficiency.

*“Roads. All road projects should demonstrate appropriate economic returns. Road projects with weak economic value are avoided.”*

The road transport sector enjoys anti-competitive advantages such as free use of infrastructure and failure to pay its external costs, and as explained above, traffic levels are growing at around the same rate as efficiency of road vehicles is increasing. In 2007 we asked the EIB **to halve its support for the road sector by 2010 and to concentrate investments in this sector on maintenance of existing routes and safety improvements.** As can be seen below and from the figures on p.7 of the issues paper, the EIB has actually *increased* its road investments since then, and continues to focus on new construction and capacity expansion.

While we agree that road projects should demonstrate appropriate economic returns, we would emphasise that **all relevant EIB infrastructure investments must be conditional on the carrying out of a Strategic Environmental Assessment** on the plans and programmes containing the project. The bank must also **ensure that the project is also compatible with other policies such as Sustainable Development Policy and climate targets.**

*“Airports and Air Traffic Management. Airport projects are supported when they demonstrate high economic value, also taking into account potential future adjustments to demand including those occurring when the emission burden is carried over to consumer prices (e.g. through inclusion of airlines in the EU Emission Trading System). Air Traffic Management investments are a priority where they can show improved safety, efficiency and reduced emissions.”*

Considering that aviation is by far the most carbon-intensive sector and that it is already subsidised through lack of tax on kerosene and lack of VAT on air tickets, **the EIB needs to stop financing the air transport sector, particularly airport expansion.** Aviation's rapid growth is not likely to be addressed by the policies adopted so far, particularly as the emphasis has been placed on including aviation into the EU Emission Trading Scheme. Even according to the Commission's own Impact Assessment, significant emissions reductions from the aviation sector will not occur and aviation emissions will have grown by 78% between 2005 and 2020, instead of 83% under a 'do-nothing' (business-as-usual) approach.<sup>5</sup> This means that significant additional measures are needed, both to increase aviation's efficiency and to reduce aviation demand.

### **Monitoring and evaluation**

The EIB needs to be much more rigorous in its verification of project promoters' claims regarding environmental impacts and public participation processes. The EIB's approval of TEN-T projects before the SEA and EIA process are finalized should be considered as taking a position in the process and interference with the procedure.

Ways must be found to eliminate “double standards” and to ensure that the basic provisions of the TEN-T

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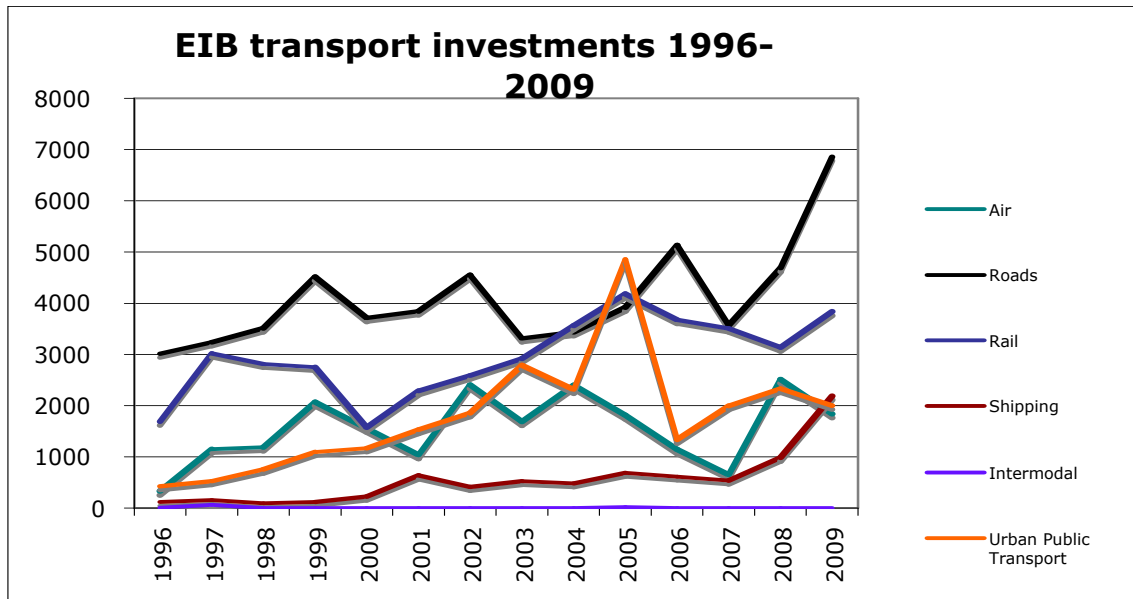
<sup>5</sup> AEF, CAN Europe, FoE Europe, T&E and WWF: Including aviation in the EU Emissions Trading Scheme - Joint NGO statement on key improvements, updated April 2008 - the original Impact Assessment no longer appears to be online.

reflect EU legislation and policy goals (EU 2020) when considering the required measures in non-EU countries. This particularly applies to environmental standards. (TEN-T 2010)

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.

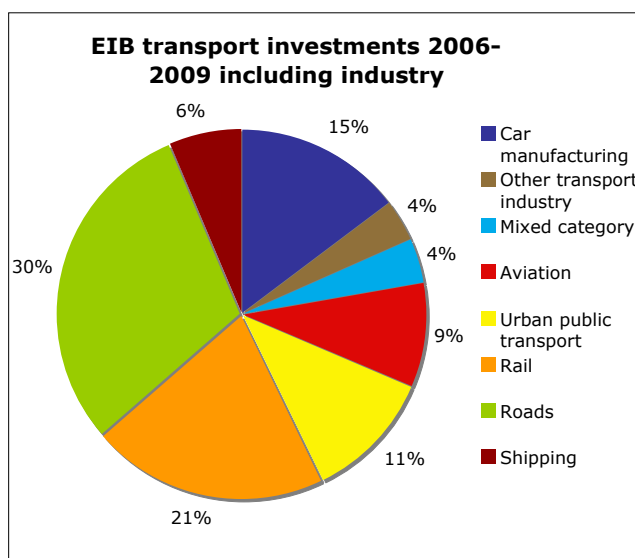
### The EIB's transport investments under its 2007 transport policy

Unfortunately, in spite of the welcome emphasis on climate considerations, the EIB's 2007 transport policy has not led to positive changes in the EIB's transport lending. The graph below illustrates the trends in the EIB's investments (by volume) before and since the new policy was published.<sup>6</sup>



- **Lending for road transport (not including car manufacturing or R&D) has greatly increased under the new policy.**
- **There has been a dramatic decrease in lending for urban public transport since its peak in 2005.**
- Rail lending has declined slightly since its 2005 peak.
- Aviation lending has fluctuated with a very gradual upward trend.
- Shipping lending has grown since 2007.
- Intermodal transport is hardly being supported at all, unless it is being done under other categories without being identified.

<sup>6</sup> The figures used are based on the projects listed in the EIB's annual reports and may thus differ from the figures reported by the EIB on p.7 of the issues paper. Annual report figures were used in order to maintain consistency with the figures from the years before 2007.



**EIB transport lending 2006-2009, in EUR million<sup>7</sup>**

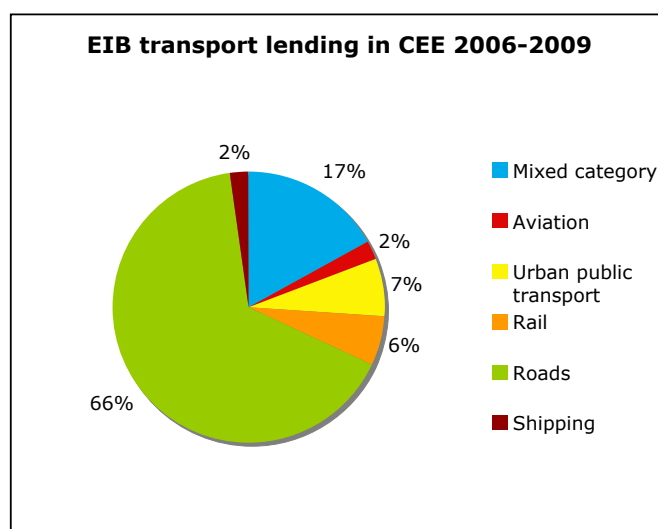
Car manufacturing	9912.9
Other transport industry	2402.5
Mixed category	2747.4
Aviation	6142.5
Urban public transport	7648.5
Rail	14141.7
Roads	20249
Shipping	4320.5

A breakdown of the EIB's transport and related industry investments from 2006-2009 shows that out of a total of EUR 67.6 billion lent over the period, 45 percent (EUR 30.2 billion) went for road-based transportation alone; with a further 9 percent (EUR 6 billion) for aviation, **making 54 percent for the most carbon intensive modes compared to 32 percent for the modes with a smaller climate impact** - rail and urban public transport.

If the EIB's massive support for car manufacturing and its other transport-related industry investments are excluded, support for road transport has made up 36 percent of lending - by far the largest sector - while aviation has made up 11 percent.

**The situation in Central and Eastern Europe gives even more cause for concern, with at least 66 per cent of investments being made into roads** (with additional unknown quantities of the mixed category investments also comprising road investments).

<sup>7</sup> The year 2006 was included although the EIB's new transport policy had not been introduced partly because our last research extended until 2005 and so it was logical not to have a gap in our data overall, and also to give a slightly bigger sample of data.



While it may be argued that road transport serves more people and therefore needs more investments, it is crucial to note that this will simply reinforce the current state of affairs where road transport is dominant over more environmentally benign modes because it does not pay its external costs. While investment in road maintenance is certainly needed, 80 percent of the EIB's road investments 2006-9 were for construction of new roads or upgrading capacity. 13 percent were for rehabilitation, while the other 7 percent were unclear.

#### Summary of CEE Bankwatch Network recommendations

- 1) The new Bank Transport Policy should have the objectives and measurable targets that are in line with the EU White Paper. The EIB role is to contribute to achieving EU policy goals that would not otherwise be achieved, such as greenhouse gas reduction or to support investment that would not arise through the application of the user-pays principle.
- 2) The EIB needs to assess scenarios of future transport needs and select priority investments based on the Avoid, Shift and Improve approach that will contribute to de-carbonization and will meet other environmental, social, but also financial imperatives. It must also actively seek to finance projects that reduce transport demand and focus on selective supplementary infrastructure measures - like e.g. user friendly public transport terminals, deeper integration of suburban/regional rail into the transport system in urban areas, investments into public logistics centres that would ease the development of combined transport, pedestrian and cycling based urban developments.
- 3) The EIB needs to set up clear screening criteria to be used for the proposed measures and individual projects to ensure long term sustainability of the projects and their compliance with EU's policy . The Bank should only finance these transport projects which are eligible under the sustainable transport lending and should ensure that the target for this lending is met in every region the Bank operates in.
- 4) Those criteria need to be clearly linked to excluding projects on the basis of their negative climate impact and taken into account following aspects:
  - Contribution to the de-carbonization of the sector (a credible methodology to assess the GHG aspects of the measures and projects must be in place), - climate assessment and assessment of alternatives in terms of mode should be requested as part of EIA process.
  - Projects selected are part of integrated national / local transport plan that have passed through SEA process
  - Compliance with the Europe 2020 goals,
  - Respect for the NATURA 2000 sites,
  - Respect for human settlements (e.g. eliminating noise, fragmentation aspect).
- 5) As the EU is reviewing its overall TEN-T policy, so should the EIB. Any bank support for the Trans-European Network - Transport (TEN-T) should be conditioned by a thorough assessment of the climate impact and alternatives in terms of different modes and demand management solutions. All TEN-T projects which EIB finances should comply with requirement of Sustainable Transport lending.
- 6) The EIB needs to be more pro-active in seeking out good quality projects in low-energy sectors. Rail, urban public transport and intermodal transport should make up the vast majority of the EIB's investments in each country.
- 7) The EIB must support demand management through soft measures, and by actively seeking to



- finance projects that reduce transport demand, such as pedestrian and cycling facilities, local food schemes and pedestrian-based urban developments.
- 8) Rail, urban public transport and intermodal transport should make up the vast majority of the EIB's investments in each country. The EIB needs to take account of the existing imbalances in transport financing and payment of external costs of the different modes and use its limited funds to support those modes with lower external costs, rather than road and aviation which already receive large subsidies in the form of unpaid external costs (road) and fuel tax and VAT exemption (aviation).
  - 9) Private sector involvement in infrastructure should not be further encouraged by the EU. This is a matter for member states to decide. The EU is supposed to be neutral on the involvement of the private sector in public services.
  - 10) Considering that aviation is by far the most carbon-intensive sector and that it is already subsidised through lack of tax on kerosene and lack of VAT on air tickets, the EIB needs to stop financing the air transport sector, particularly airport expansion.
  - 11) Prioritise maintenance or safety improvements in EIB financing in the road sector. Share of road transport investments in the EIB portfolio should be halved to make space for the development of sustainable transport modes.
  - 12) RDI is an acceptable target for public financing. However this cannot be the main plank of the EIB's transport emissions reductions strategy, as it does not address the question of growing traffic volumes.
  - 13) The EIB should not finance car manufacture at all. This is not a public interest objective and should be carried out through private investment. If the EIB wishes to support employment in convergence regions it would be much more far-sighted to support emerging industries such as renewable energy and energy efficiency.
  - 14) 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.

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