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Comments on the EBRD's 2006 Energy Operations Policy and recommendations for the forthcoming energy strategy

The commitment in EBRD's 2006 Energy Operations Policy to increase the bank's focus on sustainability is a very positive signal. However, looking into some examples of EBRD financing since then, puts into question whether these commitments are far-reaching enough:

1. Fossil fuels

The Energy Operations Policy did not keep EBRD from spending nearly half of their energy funds on fossil fuels projects. Bankwatch's 2012 report "Tug of War" which analyses EBRD's lending between 2006 and 2011 shows that 48% of the spending in that period still went into fossil fuels. In the light of climate change this is too much, especially as it locks countries into the future use of fossil fuels.

One example is EBRD's participation as minority stakeholder in Mongolia's coal company Energy Resources LLC (ER), which owns a licence to mine coal in the vast Tavan Tolgoi deposit and EBRD's loan to ER and the subcontractor Leighton Mongolia to expand the Ukhaa Khudag coal mine and build a coal washing plant. While the coal washing plant might help to increase Mongolia's economic value added, it makes coal mining more attractive and supports the expansion of the coalmine, leading to more coal being burnt, which massively contributes to climate change.

Another project situated in Mongolia is the Oyu Tolgoi gold and copper mine. EBRD is supposed to decide about contributing money for the realisation of this project by the end of February. Part of the plans for the mine is a 450 MW coal powered plant to provide the mine with energy. If this is built it will be another lock-in into the use of coal for decades to come.

In Serbia, in July 2011 EBRD approved a loan of 80 Mio. Euro for the expansion of the lignite mine Kolubara, despite severe protests from the local population due to resettlement issues, despite proven and severe cases of corruption and despite the fact that lignite is the most CO₂ intensive of all fossil fuels. Currently, EBRD considers a loan of 400 Mio. Euro for the 750 MW Kolubara lignite power plant.

The threat deriving from these coal financing projects can be understood in the light of an article by climate activist Bill McKibben published in July 2012¹ which contains some climate change math. He explained what reaching the target of limiting global warming to 2 degrees Celsius would mean in terms of carbon dioxide that can be poured into the atmosphere: 565 giga-tons of carbon dioxide is the estimate of

¹ <http://www.rollingstone.com/politics/news/global-warmings-terrifying-new-math-20120719>

scientists, if we wanted reasonable hope of staying below 2 degrees. At the same time 2.795 giga-tons is the amount of carbon already contained in the proven coal and oil and gas reserves of the fossil-fuel companies, and countries acting like fossil-fuel companies. This is the fossil fuel currently on track for being burned, which is five times the 565 gigatons that could keep us within the 2 degrees limit. McKibben points to the fact that if the 2 degree target is taken seriously “effective action would require actually keeping most of the carbon the fossil-fuel industry wants to burn safely in the soil, not just changing slightly the speed at which it’s burned.”

2. Nuclear

EBRD is considering a loan for the Ukrainian program of nuclear power plant safety upgrades. This appears good at first glance and seems to be in everybody’s interested but in fact the safety upgrades are the basis for lifetime expansions of Ukraine’s 15 nuclear reactors, most of which are approaching their expiration date. The Ukrainian government is very outspoken about this. Chernobyl and Fukushima have shown the unmanageable risks of using nuclear power, which increases with the age of reactors. It would therefore be irresponsible and the opposite of sustainable to approve the loan for the Ukrainian program.

Recommendations for the forthcoming energy strategy

In November the president of the World Bank Jim Yong Kim presented the report “Turn down the heat” which illustrated the catastrophic effects of a global warming of 4°C, which is likely if we continue in the business as usual way, concluding that we therefore need to do everything possible to stick with “only” 2°C (which would very likely still result in some small islands disappearing in the rising sea).

The EBRD as a public bank should play a role in this by excluding any lending to fossil fuel projects in future in order to avoid lock-in effects, since mining expansion or new plants (even if more efficient than old ones) will run for several decades and increase CO₂ emissions during this time. The excuse that projects will go ahead in any case and will be improved through EBRD’s involvement is invalid as the role of a public bank should be in lending only to projects that don’t emit carbon dioxide and set borrowing countries on a renewables-based energy path. A policy that absolutely excludes fossil fuel lending will also help to avoid risks such as “carbon leakage” between EU member states and adjoining countries.

By no means should this be seen as an entry point for supporting nuclear power, as the catastrophic risks of this technology have been illustrated by the accident of Fukushima. The EBRD should therefore exclude lending for nuclear energy.

The coming energy strategy needs to find a very clear definition of energy efficiency. Up to now, new coal plants have too often been presented as “more efficient” alternatives to old plants. Given the lock-in effect of plants this should not be possible at all and should definitely not be presented as “energy efficiency”. While energy efficiency is very important, a focus should be on demand side energy efficiency as this is where enormous gains are possible.

EBRD should focus on renewable energies. However, in supporting those, a focus on environmental and social sustainability, a thorough analysis of the local situation and possibilities is a precondition. Energy projects should focus on fulfilling domestic needs.