

Comments on EBRD's draft energy strategy

For more information

Fidanka Bacheva-McGrath
EBRD campaign coordinator
fidankab@bankwatch.org

Introductory notes

The EBRD must stop financing fossil fuels and concentrate its limited resources on the transformation to an energy-efficient, low carbon, sustainable renewables-based economy. The bank's role should be to reinforce the market signals, through its energy policy, that lead to a market environment that fosters the low-carbon shift. This should consist first of all of a clear climate target for EBRD investments, to ensure that large greenhouse gas emissions reductions are being supported. The EBRD already claims to be better than carbon neutral in its investments, however it has achieved this only through dubious means such as claiming that the new 600 MW Sostanj lignite-powered unit in Slovenia is an energy efficiency project with large greenhouse gas emissions savings. Even if we accept such claims, with 50-70 percent global emissions reductions needed by 2050, carbon neutral is no longer good enough and a strong downwards emissions trajectory is needed.

The draft energy strategy doesn't have a climate target, nor does the bank have a bank-wide target. It recognises the urgency of climate action and the fact that the energy sector is the largest greenhouse gas emitter and places energy efficiency and renewable energy at the core of the transition to low carbon economies. It does so within a market atmosphere of general uncertainty, the need to eliminate fossil fuels subsidies (though the EBRD does not seem to count its own loans here), the social and environmental externalities of energy, market distortions such as the increase in US shale gas production and the currently low carbon price (which slows down the transformation away from fossil fuels).

The low carbon transition appears to be a central theme of the draft strategy but when it comes to the fossil fuels sector, it only translates into a potential slight reduction in greenfield coal investments. The draft acknowledges the carbon lock-in problem and that the challenge is immediate, yet the general support for the hydrocarbons sector as well as coal mining and rehabilitations continues as usual. Additionally, the bank opens the door to highly controversial shale gas investments.

While the bank's focus on energy efficiency and renewable energy can help bring positive change, having that transition extend over an undefined period of time and in the meantime continuing to direct bank capital towards the same consumption patterns, hydrocarbons infrastructure etc. is not likely to bring about anywhere near a sufficient shift to low carbon economies.

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.

Given the urgency of climate change and the need for investment into a resource-efficient, renewables-based economy there is no space for new coal and lignite fired generation in the power sector in the medium term as in this timeframe CCS technology is very unlikely to be commercially available as a competitive energy option. The EBRD needs to look much more critically at planned fossil fuel refurbishment and replacement projects and examine whether they are compatible with 50–70 percent global GHG reductions by 2050 and 80–95 percent reductions in the EU.

The bank also needs to tighten up its project selection criteria accordingly, to ensure that it brings real added value with its investments rather than financing projects that may bring plants into compliance with current legislation but may inhibit the transition to energy efficient, new-renewables-based economy. From this point of view, any replacement in energy generation after 2013 for coal, and 2014 for gas, should be turned down by the EBRD on the basis of climate science.

The new energy strategy should be framed to eliminate the risk of further high-carbon lock-in by excluding further lending to coal power plants, coal mining and should significantly limit its lending to other fossil fuel projects. The EBRD should establish an emissions performance standard (EPS) at the level of 350 g CO₂/kWh.

1) Aim and scope of the energy strategy

The paper summarises the importance and impacts of the energy sector (including climate change) and places it at the centre of the Bank's mandate to foster the transition to market-oriented economies and in so doing to promote environmentally sound and sustainable development. The Energy Strategy covers all the Bank's activities in electricity generation, transmission, distribution and supply and hydrocarbon extraction, processing, transportation, distribution and supply. Hydrocarbons for this

purpose includes oil, gas and thermal coal. Interactions with other areas are indicated: Mining Policy, Sustainable Energy Initiative (SEI), Sustainable Resource Initiative, Transport Strategy, Municipal and Environmental Infrastructure Strategy, Environmental and Social Policy.

At the public consultation on July 25th 2013 in London, Bankwatch was told that the Energy Strategy is under the umbrella of the Sustainable Energy Initiative (SEI), so the targets for energy efficiency & renewable energy sources (EUR 4.5–6.5 billion for the 3rd SEI round) and a target annual carbon emission reduction range of 26 to 32 million tonnes CO₂ are valid for the Energy Strategy as well.

Bankwatch would like to reiterate its conviction that EBRD needs a scientifically-grounded bank-wide climate target and measures in supporting countries of operations and the private sector to deliver on (anticipated) European Union and international climate commitments.

The SEI does not provide sufficient scope and ambitions to be an umbrella document for a sustainable energy strategy of the Bank, as its emissions reduction targets are not related to any long-term reductions needs justified on the basis of climate science. In addition the SEI counts only achievements in terms of reducing greenhouse gas (GHG) emissions but does not count emissions increases from new greenfield projects or from projects which perpetuate the lifetime of facilities which would have had to be closed without EBRD support.

Similarly the EBRD's method of calculating emissions reductions is misleading. This has led to a situation where the Sostanj unit 6 lignite power plant in Slovenia was considered as a SEI project because the EBRD's calculations assumed that the current level of emissions would continue without the project, which could not be the case as the last unit would have to close around 2025. This allowed the bank to claim 1.2 million tonnes CO₂ reductions from a new lignite unit, when in fact the project will significantly extend

the period over which the plant continues to emit, thus endangering Slovenia's ability to achieve 2050 EU climate goals.

Given the nature of the institution, its transition mandate and market orientation, it is important to identify and prioritise the approaches that actually bring decarbonisation results, given that the market will continue to bring forth carbon intensive investments and promote over-consumption-oriented patterns. Cost-reflective pricing would definitely be a game changer for the sector, especially if it went beyond what the market and general regulations allow for and included realistic assessments of external costs such as health impacts and climate change as well as taking into account existing subsidies for fossil fuels and related infrastructure.

The bank needs to better analyse the social impact of cost-reflective prices and what impact they would have on the region's households to assess what are the best actions and a timeline for them. In November 2012 Commissioner Oettinger reported that 18 EU Member States still regulate either their electricity or gas prices, thus throwing doubt on whether deregulation can be properly implemented, especially in countries with higher existing levels of poverty.

The bank's role, rather than 'promoting the structural shift towards a market-oriented model for the sector', should be assessed over a longer period of time, which would help reduce the risk that the bank will just follow temporary distortions such as the increase in US shale gas production, the current low ETS carbon price or national policy signals. In the end, while the bank's focus on energy efficiency and renewable energy can help bring positive change, having that transition extend over an undefined period of time and in the meantime continuing to direct bank capital towards the same consumption patterns, hydrocarbons infrastructure etc. is not likely to bring about anywhere near a sufficient shift and transition to low carbon economies.

Later on the strategy touches upon the urgency of climate action and the transition to low carbon economies – from that perspective, the aim and scope set only a partial response. On the one hand, current market conditions do not foster a transition to low carbon economies (for example, carbon prices), but the bank appears to act like there is little incompatibility between current markets and the low-carbon transition. The partial response is also visible in the strategy with the continued support for all fossil fuel sectors and additionally unconventional hydrocarbons. Therefore, clearer wording is needed on where the bank sees itself in the context of climate policy and action and a measurable target for the transition to low carbon economies which corresponds to the needs outlined by the Intergovernmental Panel on Climate Change. If this is not covered in the Energy Policy, a separate climate policy needs to be urgently adopted at the EBRD, encompassing all sectors of operations.

In addition the EBRD needs to update its carbon accounting methodology to ensure that Scope 3 emissions are taken into account and that the baseline for power plant rehabilitations is the most environmentally acceptable alternative plant, not the current (unsustainable) situation.

2) Setting the context – investing in an uncertain environment

a) Climate change

The draft strategy acknowledges climate change, the fact that the energy sector is responsible for the largest share of greenhouse gas emissions and it has the greatest potential to achieve emission reductions. The draft acknowledges the carbon lock-in problem and that the challenge is immediate.

There is no indication in the draft strategy how the lock-in problem is addressed when it comes to new hydrocarbon-based generation or exploitation of hydrocarbons. The coal criteria do not address lock-

in – they give guidance on the circumstances under which the bank considers that lock-in can be ignored. In addition, the 'carbon bubble' risk is not analysed: approximately 80 per cent of proven fossil fuel reserves need to stay in the ground if the 2 degree limit is to be adhered to, thus up to 80% of declared reserves owned by the world's largest listed coal, oil and gas companies and their investors would be subject to impairment as these assets become stranded.¹

A clear explanation is needed of the bank's view of the climate trajectory it is following in different regions. The variation between the EBRD's countries of operation is vast. There are some basic standards which must apply to all EBRD projects, but the EBRD should show its assumptions about future climate commitments for the different countries of operation as well, otherwise the strategy will simply be a 'lowest common denominator', holding EU and EU accession countries only to the same commitments as Early Transition Countries. Although a global climate deal is expected to be reached setting targets only for the post-2020 period, investments made now will play a decisive role in whether those targets will be reached.

In addition the bank needs to make clear that for EU accession countries, its projects will be in line with EU 2030 and 2050 climate commitments, otherwise these countries risk ending up with stranded assets and/or an inability to meet climate targets.

Many of the EBRD's countries of operations need to diversify their economic activity away from hydrocarbons, and scale up their support for energy efficiency. The draft strategy gives very little idea about the scale of the changes that the EBRD believes are needed, nor of the strategies the bank will use in different regions.

b) Carbon markets

The draft makes a thorough assessment of the state

¹ <http://www.carbontracker.org/wastedcapital>

of carbon markets. The long term agenda to reduce GHG emissions through market-based mechanisms is not sufficient to drive low carbon investments.

Some other institutions such as the European Investment Bank (EIB) address the issue of the uncertainty of future carbon pricing by using a shadow carbon price. The draft strategy does mention later on that the bank will incorporate into its analysis an assessment of the impact of a shadow price of carbon on the sustainability of the investment, which is a welcome step. However without knowing the level at which the price will be set, there is no indication of the impact the shadow carbon price will have on the bank's investment decisions.

c) Energy systems

The draft strategy identifies that changes in the energy sector are challenging the centralised and fossil fuel-based energy system, with a transformation to higher efficiency and sustainability driven by a greater focus on competitiveness and costs, the low carbon agenda and the sustained high level of commodity prices. The key elements of the transformation are indicated:

- *on the demand side, participation of consumers (smart metering, smart grid technology)*
- *on the supply side, smaller, renewable generation capacities; distributed generation*
- *electricity storage; new technologies and structural shift*

In this transformation context, the draft identifies the importance of networks, reduction of peak demand (time of use pricing).

Interconnectors are central to wide scale deployment of renewable energy. The bank should prioritise the thorough integration of renewable energy in regional energy markets so as to limit the need for fossil fuel based back-up capacities. However attention should also be paid to ensuring that interconnections are really aimed at exchange of electricity and not predominantly for importing renewable and coal-

based electricity into the EU as seems to be the case with several transmission projects on the EU's borders (eg. transmission lines Montenegro–Italy, Albania–Italy, Ukraine–Hungary).

d) Renewables – a technology coming of age

The draft indicates, in the context of challenges for renewables, that conventional power typically does not pay the full environmental costs associated with its generation and may benefit from subsidies. The draft assumes a large part for renewables to play, on account of the low carbon transition. Better support systems are indeed needed for the short term, especially to ensure price credibility, in preparation of eliminating energy subsidies altogether (while securing the functionality of social systems to address the affordability of energy services for the poor households).

Having recognised the potential and importance of renewables, as well as the need to internalise GHG emissions costs for hydrocarbons, energy diversity, water use and emissions, the strategy should make renewables (with the associated enablers – grids, interconnectors), alongside energy efficiency, the centrepiece of its intervention.

e) Natural gas markets

Assumptions are made for the medium term for gas prices, delivery of new infrastructure and exploitation of unconventional reserves on a large scale, which would lead to greater use of gas for power generation, as well as as an alternative to fuel oil for transportation. The draft identifies the shale gas boom in the US as a key development, even raising the prospect that the US could become a net energy exporter by 2035. The draft does identify the uncertainty for similar developments in the Bank's region, because technical, regulatory or social concerns may prevent the exploitation of unconventional reserves.

Shale gas poses a real and serious threat to the climate, the environment and local communities. The extraction of shale gas leads to groundwater contamination, serious health impacts, and significantly higher carbon emissions than other fossil fuels. These aspects are consistently downplayed. In addition, recent analyses of the US scenario show that shale gas is neither as cheap nor as abundant as originally thought.

Shale gas reserves in the US have been grossly overstated and the current price for natural gas is unsustainably low – falling significantly below the cost of production. The combination of overestimated reserves and unsustainably low prices will lead to significant price volatility, resulting in an unavoidable rise in gas prices in the near future. The bank should not support the development of fracking operations.

3) The Transition Challenge – Fuelling a Sustainable Future

The draft energy strategy defines the Bank's role in the energy sector as promoting the transition to the policies, assets, institutions, actors and regulations that comprise a market-oriented energy sector, which will in turn deliver sustainable, secure and affordable energy services.

The affordability/security/sustainability 'trilemma' is indeed a major challenge, as striking the balance is a difficult, imperfect exercise. The open market itself doesn't automatically guarantee sustainability for example, as long as subsidies and external costs persist. It is policies that guide the market, especially for such a tremendous task as a low-carbon transition. The paper is lacking any analyses of the current energy systems in countries of operations and a long term perspective in terms of affordability, security and sustainability and the link with the energy market situation in those countries.

However the bank, as an institution with limited resources and a sustainable development mandate,

does not need to tackle all elements of the trilemma, it should rather participate only in those 'no regrets' projects which contribute to all three elements at the same time. The bank's role should be to reinforce the market signals, through its energy policy, that lead to a market environment that foster the low-carbon shift. This market signal would consist first of all of a clear climate target that focuses on reducing carbon intensity & increasing energy efficiency and renewable energy investments while excluding the most climate damaging sectors.

a) Gaps and challenges – the role of energy production in a market-oriented economy

The draft identifies the key challenges in ensuring that hydrocarbon production brings about sustainable and equitable growth. The transition agenda – according to the strategy – includes containing the impact of natural resources extraction on macroeconomic volatility, ensuring that development does not crowd out other sectors, allowing for appropriate allocation in society of the revenues from this sector (e.g. the accumulation of reserves in stabilisation funds), and maximising opportunities to develop a full range of commercial activities from natural resource production.

Hydrocarbon producing countries will continue to exploit their resources in the near future, irrespective of any low-carbon agenda, however this does not mean that a public bank is justified in supporting it. Market signals are again important and it is hardly likely that the bank's involvement in the hydrocarbons sector can bring sufficient pollution reduction benefits to outweigh the benefits from supporting clean energy development and setting the market signal for it.

b) Gaps and challenges – the low-carbon transition

The draft strategy indicates that low carbon

transition is not a discrete objective, separate from or in competition with, other energy sector goals and that the low carbon agenda, with its focus on efficiency and cost-reflective pricing that also helps reduce affordability strains, promotes competitiveness and supports the development of a more diverse and productive economy. The major transition challenge for the Bank is addressing the high carbon intensity of many of its countries of operations, where some progress has been made in carbon pricing, but the systems in place currently generate prices for carbon emissions that are low and do not reflect economic estimates of the true cost associated with climate change.

In these circumstances the transition challenge in the Bank's countries of operations is to secure the investments that reduce carbon intensity in themselves and have wider impacts in the sector, for example by shifting market behaviour and structures, by building critical mass in a sector or demonstrating technology or behaviour that goes beyond business as usual.

The low carbon transition appears to be a central theme of the draft strategy but when it comes to the fossil fuels sector, it only translates into a potential slight reduction in greenfield coal investments. This transition challenge clashes with the bank's general support for the hydrocarbons sector, and it appears that the bank is placing market opportunities above the global imperative of tackling climate change. A clear statement needs to be made that climate change takes precedence over opening new markets.

4) Operational Approach – Organising theme

The organising theme is transition: supporting systemic transformation through discrete but coordinated activities that in different ways move economies towards a market-oriented energy sector. That transformation in turn generates an energy sector better equipped to deliver the goal of sustainable, affordable and secure energy that

supports the growth and development of economies. The Energy Strategy sets out an operational approach organised by theme rather than by sub-sector. Two fundamental considerations cut across all of the themes discussed below: efficiency and uncertainty. In terms of uncertainty, the draft strategy indicates that for decision makers this environment (long term and capital intensive investments; events such as the Deepwater Horizon and Fukushima Daiichi) means that it will not always be clear what the best policy choice is; hard choices must be made in circumstances where none of the available options is optimal. The Bank has a key role to play in supporting those choices and sharing the lessons it has learned from its experience of the transition process.

The uncertainty argument can be misleading in weighing investment options. In reducing consumption, increasing efficiency and supporting renewable energy projects, the main risk is that the uncertainties of support schemes can bring into question the long-term financial viability of projects, however much more is at stake with oil, shale gas or nuclear projects where severe environmental, social and climate implications are involved. Thus, the game changer role of the bank should be better defined under the umbrella of a sustainability goal, which includes the perspective of affordability and access to energy. The bank should have a role in supporting hard choices, as long as those target long-term sustainability.

a) Operational Approach – Building deep and liquid energy markets

The Bank will pursue these aims through improving market signals (reduce subsidies, cost reflective prices); wider private participation (including oil and gas); modernization of the public sector; support to smaller companies (including oil and gas); strengthening the hydrocarbon value chain (oil and gas, refineries, petrochemical plants etc); market-enabling infrastructure and regulation.

Within the context of low carbon transition, the urgency of climate action, the lock-in argument and the existing subsidies, support for the hydrocarbon sector requires strict limitations including the avoidance of supporting capacity expansion or lifetime extension.

The bank states its aversion to subsidies for fossil fuels but at the same time the bank's own loans to these sub-sectors can be regarded as subsidies according to the WTO's definition because they confer a benefit on the borrower (in this case rather political than financial).

At the same time much deeper exploration is needed of whether deep private sector participation in the energy sector in the EBRD's countries of operation is even likely to continue to develop without subsidies such as government loan guarantees, tax breaks, or other production subsidies.

Similarly the high level of corruption in the region's energy sectors needs to be explored and steps outlined on how the EBRD will seek to address the problem.

b) Operational Approach – Rethinking energy systems

The Bank will support developments in the following areas: smart grids; demand side efficiency and response, distributed generation; best practices in the hydrocarbon sector.

The best practices in the world cannot make the hydrocarbon sector compatible with addressing climate change, and the bank should explain more clearly what it means by 'best practices' and exclude any financing that entails expansion in production.

More specific criteria are also needed in defining what the Bank considers as smart grids and distributed generation.

The bank also needs to tighten up its definition of

demand-side energy efficiency projects and avoid participating in projects where limited energy efficiency improvements are outweighed by overall increases in fossil fuel production/combustion (Jevon's paradox). Examples include the Kolubara environmental improvement project – which is far from being any type of best practice and where the bank's added value seems mainly to consist of enabling sufficiently consistent quality lignite to be mined for the Kolubara B lignite power plant to be built – the Sostanj unit 6 lignite power plant, and several of the industrial/retail sector energy efficiency projects.

c) Operational Approach – Low carbon transition

The bank will promote energy efficiency throughout the energy sector and, through the sector's impacts on the demand side, throughout the economy as a whole as a key part of its efforts in this area. The Bank will continue its strong support for the deployment of renewable energy throughout its countries of operation, financing investments in new capacity as well as combining those investments with policy dialogue and technical cooperation to initiate and strengthen regulatory frameworks.

The Bank will continue to support large and small hydropower. In large hydropower the Bank will focus on rehabilitation to improve the efficiency and capacity of existing plants as well as their resilience to climate change impacts. The Bank will also support greenfield developments where these meet the most stringent demands of international best practice in the environmental and social areas, including evaluation of the full carbon implications of construction and operation.

The strategy should be more specific as to what type of energy efficiency and renewable energy investments the bank will support. We see the added value of the Bank particularly in residential sector energy efficiency, however this is still at a very low level in the bank's operations. The bank needs to

diversify away from hydropower as the predominant form of renewable energy in the region of operations, both due to its frequent sustainability problems and because of the greater added value in other forms of renewable energy. All three of the large new-build hydropower projects approved by the EBRD in recent years have been subject to Project Complaint Mechanism complaints by civil society organisations on environmental grounds, thus indicating that special care needs to be taken in this sub-sector. Bankwatch has developed sustainability criteria for hydropower separately to these comments, which are available in an annex below. Rehabilitation projects of existing hydropower plants should be prioritised.

d) Operational Approach – Carbon capture and storage

Given the bank's assessment of the importance of CCS in the low carbon transition the EBRD will strongly support any commercial projects adopting this technology. However in the context described above the Bank expects few if any such projects during the Strategy period. The Bank's focus will accordingly be to support countries in developing the regulatory framework and technical knowledge required to facilitate CCS. This approach is part of the Bank's general theme, in an environment of uncertainty, of supporting enabling frameworks, taking steps now that facilitate a long-term agenda.

As an answer to the climate change challenge, carbon sequestration cannot be considered as a remedy. There are serious questions from an economic, environmental and technical perspective. The particular concerns that have to be addressed include the economic costs per unit of CO₂ stored, the long-term viability of CO₂ storage, loss of efficiency due to CCS installation, and the commercial readiness of the technology. Until proven in these four areas, it is a high risk strategy to base future supply forecasts on its availability; otherwise, it only supports business-as-usual and distracts attention from real solutions, such as energy efficiency. If financed from public sources, it distracts attention from small-scale, truly

sustainable and decentralised energy measures and it puts finance for win-win solutions at risk of being crowded-out. The bank should not allocate resources for CCS development. Similarly, developing a framework for CCS is a waste of time and money considering the lack of progress towards commercial use and effectiveness of the technology and such resources would be better targeted towards residential energy efficiency and sustainable renewables.

e) Operational Approach – Cleaner energy production and supply

The Bank will also support increased efficiency and decreased carbon intensity along the coal value chain, including through improved coal handling, drying and washing facilities at coal mines.

Increasing the efficiency of coal mining and combustion is a poor use of the bank's resources. In the medium-long term the coal industry simply has to stop existing, and efforts to improve its efficiency can reasonably be compared with re-arranging the deckchairs on the Titanic. The only role for the bank we see in this sector is in resolving environmental legacy issues from existing or decommissioned mines or improving health and safety, without supporting capacity expansion.

f) Operational Approach – Cleaner energy production and supply

Clean and efficient refining. In the midstream sector the Bank will support projects to improve efficiency and product quality, allowing the use of cleaner vehicles and ensuring competitiveness. The Bank will support new refining capacity which will replace inefficient plants and so reduce emissions of CO₂ and nitrogen oxides and improve the competitiveness of the sector.

Investments in the refining sector should be limited to environmental improvements which do not contribute to capacity expansion. However bearing in

mind that oil companies are not among the most needy, the bank should generally rather look for opportunities to decrease demand for oil products by undertaking projects which decrease demand for transportation or which support a shift to more efficient modes.

g) Operational Approach – Cleaner energy production and supply – conventional generation

The draft strategy anticipates that the bank will provide its financial support for greenfield coal power generation only on limited occasions and introduces a set of conditions for such projects.

The criteria are not tight enough and contain a number of loopholes. The bank's statement that it will limit investments in coal plants, as well as the criteria, only apply to greenfield coal plants, but coal criteria should also apply to rehabilitated plants and coal mining projects, as these will all contribute to the development of the coal sector in an era when it should be winding down. The statement that the bank will support "greenfield coal power generation only on limited occasions" does not represent a step forward from the last strategy, as in practice only a few of the bank's coal projects are greenfield coal generation, with others supporting coal mining or rehabilitation. In addition 'limited occasions' needs to be more precise as it can mean many different things to different people.

It also needs to be clearly stated how the bank will apply these criteria in situations where it buys equity in a company constructing coal plants or otherwise indirectly supports such developments through framework loans or financial intermediaries.

An analysis of realistically available options in a country may easily reach the conclusion that given the policy and investment environment, it is unlikely to have investors in new power capacity other than lignite-based or gas-based. However the EBRD should move beyond what has been the case so far

and concentrate on new possibilities. Its wind farm investment in Mongolia was one such example where the bank truly opened a new kind of energy generation in the country. In addition the bank should not follow governments' country-level generation-focused energy planning but should concentrate more on ambitious demand-side energy efficiency and regional-level possibilities for decentralised and generation (except in cases where this would lead to imbalances such as predominantly one-way energy exports that monopolise renewable energy potential in the exporting country and prevent later renewables development for the country's own needs, as is currently threatening the Western Balkans countries).

It is welcome that the bank stated at the public consultations that the health costs are included in the due diligence for coal projects. It would be useful to have the methodology published.

The European Investment Bank has adopted an emissions performance standard (EPS) of 550 g CO₂/kWh, with prospects of future tightening. Canada and the UK are using stricter emissions performance standards while the US is set to introduce one.

Regarding coal, the bank needs to:

- As a first step to phasing out all fossil fuel investments, immediately halt lending for coal projects involving capacity expansion or lifetime extension.
- If the bank nevertheless insists on restricting coal investments by means of technical criteria rather than coming up with a clear political position, it needs to:
 - Set criteria which apply to rehabilitations and coal mining projects, not only greenfield coal plants.
 - State at which level its carbon shadow price will be set and ensure that it is set high enough to make a real difference in project appraisal
 - Close the loophole of 'realistically available

options' by stating how it will independently and transparently assess such alternatives, rather than just relying on project promoters and governments.

- Introduce an emissions performance standard at the level of 350 g CO₂/kWh

h) Setting standards and best practice

Responsible exploration and production. The Bank will support exploration and production of oil and gas by applying the best international EHSS standards while unlocking the potential for economic growth and development of the value chain. One new area for the Bank in this context is the possibility of supporting production of unconventional oil and gas.

The strategy is very unclear about its intentions with regard to unconventional oil and gas, how the bank sees its role and the overall potential in its countries of operations, as well as the environmental and climate limitations it sees to such activities. Supporting the growth of the oil and gas industry and production of unconventional oil and gas are both incompatible with the low-carbon transition and should not be a focus for the bank.

i) Nuclear safety

The Bank remains committed to its approach to the nuclear sector outlined in the 2006 Energy Operations Policy. While the Bank will not provide funding for the construction of new nuclear power plants it will continue to consider funding for safety improvements of operating plants as well as for radioactive waste management and decommissioning of nuclear facilities.

The Bank's loans to the nuclear sector have strayed beyond the Bank's stated aim of improving nuclear safety and have in some cases led to enabling new unit start-ups (K2R4) or old dangerous units to continue operations beyond their design period (Ukraine NPP Safety Upgrade Programme). Such an

approach does not contribute to long-term nuclear safety in Europe, on the contrary it prolongs exposure to nuclear risks. After the Fukushima disaster it has become clear that not only RBMK-type reactors can cause nuclear accidents with world-wide consequences. The nuclear industry's own conclusions from the EU nuclear 'stress-test' pointed to the necessity of major safety upgrades at all units, but an independent review² revealed limited scope of these 'stress-tests' and stated that for a number of reactors a permanent shut-down is the only safe option.³ Against this background, plans of key "nuclear countries" in the region (Russia, Ukraine and Bulgaria) to operate nuclear units for extra 15–20 years beyond their design lifetime look irresponsible. Such plans should be revised, and the role of the EBRD as a public institution is to stimulate governments towards such revisions with the aim of limiting the scope of nuclear units' lifetime extension plans throughout the region and support safe closure and decommissioning.

During the period of the bank's current energy policy no direct investments were made into finding solutions for the long-term safe disposal of radioactive waste or preparing decommissioning plans, despite these being named among key areas of the bank's involvement in the nuclear sector. The bank should now strengthen its commitment to addressing issues of nuclear power plants closure and decommissioning as well as spent nuclear fuel and radioactive waste management through main capital loans. These areas are becoming increasingly important because of gradual ageing of the world's nuclear reactor fleet⁴, the nuclear catastrophe at Fukushima Daiichi and because these unfortunately are lacking proper attention from governments in the EBRD's countries of operation. The currently applied practice of addressing them by setting conditionalities on loans granted to support the nuclear industry's expansion has proved to be

successful only to a limited extent. In the case of Ukraine, the loan for the K2R4 units did not help ensure that sufficient financial reserves are accumulated for decommissioning, nor did it help ensure that the reactor's safety levels are at least compatible with currently recognized nuclear safety standards⁵. Meanwhile, safe decommissioning and the successful resolution of the spent nuclear fuel problem are essential in providing truly long-term safety from nuclear hazards. The EBRD should narrow down its investments in the nuclear sector to safe closure and decommissioning, as well as for the safe and secure management of radioactive waste and spent nuclear fuel, to exclude any basis for the bank to support the further capacity expansion or lifetime extension of nuclear units.

5) Performance indicators

The draft strategy lays five performance indicators: private participation, cost reflective pricing, energy efficiency, carbon intensity and interconnections/energy trade.

There needs to be at least one indicator on GHG emissions which is related not to GDP but to per capita levels of emissions or to absolute decreases/increases over a defined period of time, as global decreases need to be absolute, not only relative to GDP. As the energy efficiency and carbon intensity indicators are currently rather similar, the carbon intensity one could perhaps be changed to reflect absolute reductions rather than GDP-relative ones.

Private participation cannot be a satisfactory indicator. First, it shows nothing about the competition in the private sector. There may be 100 percent private ownership, but still no competition.

Neither would it exclude ownership gained by dubious means. As such it may conflict with the

2 <http://www.nuclear-stress-tests.eu/en/the-truth.html>

3 http://www.greenpeace.org/eu-unit/Global/eu-unit/reports-briefings/2013/Report_EU_Stress_Tests_NAcPs.pdf

4 World Nuclear Status Report, 2013 at <http://www.worldnuclearreport.org/>

5 CEE Bankwatch Network's correspondence with the EBRD from 1 June 2012

EBRD's goals to stamp out corruption. For example, private ownership of power generation facilities in the Republika Srpska entity of Bosnia and Herzegovina is gaining ground to some extent, but there are significant concerns about the integrity of some of the companies involved. Yet according to a 'private ownership' indicator, it would still rank highly. This is hardly the kind of transition that the EBRD should be promoting.

Cost-reflective pricing may not be a realistic goal in terms of household consumers – as mentioned above many EU countries are nowhere near to achieving this.

Interconnections/energy trade: Increased exports is not a suitable indicator from our perspective. Most EBRD countries of operation are outside of the EU and current trends indicate that European countries are trying to increase exports from non-EU countries (Balkans, Ukraine, Georgia) where environmental and labour standards (thus production costs) are not so strict/high as in EU. Even in cases like the Balkans where the intention is to export primarily renewable energy to the EU, this will hamper countries' own development of their renewables potential, as sites are limited and many of the best ones are being developed for export.

In general we would recommend concentrating on outcome indicators, not process indicators. After all, the EBRD is supposed to exist to improve people's lives and the environment, and it is this which should be measured.

Jobs created per kWh of energy produced should be among the indicators used. This indicator will show the macroeconomic effects of investments in energy efficiency in buildings and dispersed renewable energy sources versus investments in fossil fuel based energy and provide a source of comparison between different countries of operation pursuing different energy mix choices.

6) Summary of recommendations

- Introduce a scientifically-grounded bank-wide climate target and measures to support countries of operations and the private sector to deliver on (anticipated) European Union and international climate commitments
- Identify and prioritize the approaches that actually bring decarbonisation results
- The bank's role in the energy sector / low carbon transition should be assessed over a longer period of time
- Clearer wording is needed on where the bank sees itself in the context of climate policy and action and a measurable target for the transition to low carbon economies which corresponds to the needs outlined by the Intergovernmental Panel on Climate Change
- Update the carbon accounting methodology to ensure that Scope 3 emissions are taken into account and that the baseline for power plant rehabilitations is the most environmentally acceptable alternative plant, not the current (unsustainable) situation
- Demonstrate how the lock-in problem is addressed when it comes to new hydrocarbon-based generation or exploitation of hydrocarbons. The coal criteria do not address lock-in – they give guidance on the circumstances under which the bank considers that lock-in can be ignored
- A clear explanation is needed of the bank's view of the climate trajectory it is following in different regions. The variation between the EBRD's countries of operation is vast. There are some basic standards which must apply to all EBRD projects, but the EBRD should show its assumptions about future climate commitments for the different countries of operation as well, otherwise the strategy will simply be a 'lowest common denominator', holding EU and EU accession countries only to the same

commitments as Early Transition Countries

- Make it clear that for EU accession countries, its projects will be in line with EU 2030 and 2050 climate commitments
- Many of the EBRD's countries of operations need to diversify their economic activity away from hydrocarbons, and scale up their support for energy efficiency. The draft strategy needs to elaborate on the scale of the changes that the EBRD believes are needed and the strategies the bank will use in different regions
- Indicate the shadow carbon price level and its expected impact on the bank's investment decisions
- Interconnectors are central to wide scale deployment of renewable energy. The bank should prioritise the thorough integration of renewable energy in regional energy markets so as to limit the need for fossil fuel based back-up capacities
- Ensure that interconnections are really aimed at exchange of electricity and not predominantly for importing renewable and coal-based electricity into the EU
- The strategy should make renewables (with the associated enablers – grids, interconnectors), alongside energy efficiency, the centrepiece of its intervention.
- The bank should not support the development of fracking operations.
- Participate only in those 'no regrets' projects which contribute to affordability, security and sustainability at the same time.
- The low carbon transition appears to be a central theme of the draft strategy but when it comes to the fossil fuels sector, it only translates into a potential slight reduction in coal investments. This transition challenge clashes with the bank's general support for the hydrocarbons sector, and it appears that the bank is placing market opportunities above the global imperative of tackling climate change. A clear statement needs

to be made that climate change takes precedence over opening new markets.

- The game changer role of the bank should be better defined under the umbrella of a sustainability goal, which includes the perspective of affordability and access to energy. The bank should have a role in supporting hard choices, as long as those target long-term sustainability.
- The bank needs to better analyse the social impact of cost-reflective prices and what impact they would have on the region's households to assess what are the best actions and a timeline for them.
- Within the context of low carbon transition, the urgency of climate action, the lock-in argument and the existing subsidies, support for the hydrocarbon sector requires strict limitations including the avoidance of supporting capacity expansion or lifetime extension.
- Exploration is needed of whether deep private sector participation in the energy sector in the EBRD's countries of operation is even likely to continue to develop without subsidies such as government loan guarantees, tax breaks, or other production subsidies. Similarly the high level of corruption in the region's energy sectors needs to be explored and steps outlined on how the EBRD will seek to address the problem.
- The best practices in the world cannot make the hydrocarbon sector compatible with addressing climate change, and the bank should explain more clearly what it means by 'best practices' and exclude any financing that entails expansion in production.
- More specific criteria are also needed in defining what the Bank considers as smart grids and distributed generation.
- Tighten up the definition of demand-side energy efficiency projects and avoid participating in projects where limited energy efficiency improvements are outweighed by overall increases in fossil fuel production/combustion
- The strategy should be more specific as to what

type of energy efficiency and renewable energy investments the bank will support. We see the added value of the Bank particularly in residential sector energy efficiency, however this is still at a very low level in the bank's operations. The bank needs to diversify away from hydropower as the predominant form of renewable energy in the region of operations, both due to its frequent sustainability problems and because of the greater added value in other forms of renewable energy.

- The bank should not allocate resources for CCS development. Similarly, developing a framework for CCS is a waste of time and money considering the lack of progress towards commercial use and effectiveness of the technology and such resources would be better targeted towards residential energy efficiency and sustainable renewables.
 - Increasing the efficiency of coal mining and combustion is a poor use of the bank's resources. In the medium-long term the coal industry simply has to stop existing, and efforts to improve its efficiency can reasonably be compared with re-arranging the deckchairs on the Titanic. The only role for the bank we see in this sector is in resolving environmental legacy issues from existing or decommissioned mines or improving health and safety, without supporting capacity expansion.
 - Investments in the refining sector should be limited to environmental improvements which do not contribute to capacity expansion. However bearing in mind that oil companies are not among the most needy, the bank should generally rather look for opportunities to decrease demand for oil products by undertaking projects which decrease demand for transportation or which support a shift to more efficient modes.
 - It is welcome that the bank stated at the public consultations that the health costs are included in the due diligence for coal projects. It would be useful to have the methodology published.
- Regarding coal, the bank needs to:
 - As a first step to phasing out all fossil fuel investments, immediately halt lending for coal projects involving capacity expansion or lifetime extension.
 - If the bank nevertheless insists on restricting coal investments by means of technical criteria rather than coming up with a clear political position, it needs to:
 - Set criteria which apply to rehabilitations and coal mining projects, not only greenfield coal plants.
 - State at which level its carbon shadow price will be set and ensure that it is set high enough to make a real difference in project appraisal
 - Close the loophole of 'realistically available options' by stating how it will independently and transparently assess such alternatives, rather than just relying on project promoters and governments.
 - Introduce an emissions performance standard at the level of 350 g CO₂/kWh
 - Clarify intentions with regard to unconventional oil and gas, how the bank sees its role and the overall potential in its country of operations, as well as the environmental and climate limitations it sees to such activities. Supporting the growth of the oil and gas industry and production of unconventional oil and gas is incompatible with the low-carbon transition and should not be a focus for the bank.
 - The EBRD should narrow down its investments in the nuclear sector to safe closure and decommissioning, as well as for the safe and secure management of radioactive waste and spent nuclear fuel, to exclude any basis for the bank to support the further capacity expansion or

lifetime extension of nuclear units.

- There needs to be at least one indicator on GHG emissions which is related not to GDP but to per capita levels of emissions or to absolute decreases/increases over a defined period of time, as global decreases need to be absolute, not only relative to GDP. As the energy efficiency and carbon intensity indicators are currently rather similar, the carbon intensity one could perhaps be changed to reflect absolute reductions rather than GDP-relative ones.
- Jobs created per kWh of energy produced should be among the indicators used. This indicator will show the macroeconomic effects of investments in energy efficiency in buildings and dispersed renewable energy sources versus investments in fossil fuel based energy sources and provide a source of comparison between different countries of operation pursuing different energy mix choices.

Annex – Sustainability Criteria for Hydropower Development

Any hydropower project no matter the size can cause negative consequences to water basins, associated ecosystems, to climate and affected communities⁶ living along the water basins. A large number of individually acceptable projects can also lead to unacceptably high negative cumulative effects. Therefore, strategic planning should be the first step in setting thoughtful goals for hydropower's contribution to a country's electricity balance, taking into account that rivers are a vital element of the environmental, climate adaptation, social and cultural systems of our planet and that areas of high conservation value (either protected by law or not) have to be preserved from the negative impacts of hydropower plants.

In the process of planning and development of hydropower projects, the recommendations of the World Commission on Dams should be followed. The EU Water Framework Directive's respective guidelines (such as the WATECO guidance⁷) should be applied at the project level.

I. Strategic planning of hydropower development

- A national energy strategy⁸ should be in place and be subject to a Strategic Environmental

6 As defined by the UN Special Rapporteur on Adequate Housing; October 16, 2011: "Affected parties consist not only of those who will be displaced, but also those who will be subject to any restrictions on their access to resources required for continuity of their way of life, or any loss or reduction of employment, income or means of subsistence. Affected parties also include those living around the project sites, those that may be segregated from their original communities, those living in or near resettlement sites, and downstream communities in the case of a dam project. owners and non-owners, renters, sharecroppers, partners, occupants, lessees, informal workers, for example, may be considered as the affected community."

7 EU Water Framework Directive's Common Implementation Strategy (CIS) Guidance document 1

8 If a national Renewable Energy Strategy is in place this should also be subjected to an SEA.

Impact Assessment (SEA) procedure in line with the EU Strategic Environmental Assessment Directive (SEA Directive), where a needs assessment, demand management and assessment of various alternatives for satisfying energy needs is given thorough importance. Rehabilitation and increased efficiency of existing HPPs has to be given priority over new project development;

- River basin management plans should be in place and be subject to strategic environmental assessment (SEA);
- Small hydropower may be developed on not more than 30–50 percent of rivers in a catchment area. Determination of the exact boundary must be subject to prior assessment during the preparation of river basin management plans and their strategic environmental assessment;
- Based on strategic environmental assessment of the river basin management plans, “no go zones” should be created where implementation of any hydro project will be prohibited. ‘No go zones’ should include river stretches located in IUCN categories I–IV and corresponding protected areas within national categorization systems, as well as river stretches located in areas with high conservation value/importance territories (eg. Upstream areas of rivers, riparian floodplains, intact (virgin) forests, mountainous wetlands, habitats of rare and endangered species and subspecies);
- Classification of rivers and river stretches with respect to their potential appropriateness as locations for HPPs has to be conducted based not only on technical energy potential, but also based on ecological and landscape value. The water body status⁹ has to be determined (from high status to heavily modified) in order to define sufficient environmental flows¹⁰ downstream

9 Classification according to EU WFD can be used: high, good, moderate, poor, bad, heavily modified, artificial water bodies.

10 Environmental flows describe the quantity, timing and quality of water flows required to sustain freshwater and estuarine ecosystems and the human livelihoods and well-being that depend upon these ecosystems (Brisbane Decl., 2007, App. 1)

from the water intake. Maintaining of an environmental flow in the river (rather than minimal sanitary flow) is necessary to ensure that riverine ecosystems, climate change adaptation potential and the livelihoods of people depending on them are sustained.

II. Project level criteria

- Project development should be based on timely and informed public participation procedures in which affected communities and other stakeholders including civil society groups are pro-actively consulted (not only informed), where their views are properly taken into account and consent of the affected communities is obtained for project development. Compensation measures for affected communities have to be mutually agreed and be legally enforceable;
- In the case of derivative HPPs, based on the status of the river determined as the result of classification (see p.5 above), either a complex or simplified holistic methodology must be used to determine environmental flow;
- Affected community livelihood needs (water, plants, animals, recreation etc.) are assessed and sufficiently provided for during project construction and operation; Impacts on water ecosystems (including on lakes, estuaries and other water bodies or their elements downstream) and climate are assessed and prevented/mitigated during the project construction and operation;
- The project must not involve construction of any dam that affects the water flow regime and wildlife circulation, therefore any project must:
 - Not involve any dam that blocks the river flow entirely;
 - Not derogate the current status of the river;
 - Not derogate the ecological services / functions of the river including wildlife reproduction, climate change adaptation potential, erosion protection and sedimentation;

- Not involve artificial mitigation like fish ladders and/or fish friendly turbines as these have been proven to be ineffective measures;
- Not involve any physical and large scale economic resettlement that will have a significant negative impact on livelihoods of the affected communities;
- Should be integrated into the existing landscape in a way that it does not cause significant visible changes¹¹ or disrupt wildlife movement;
- Have a significant positive climate change impact or impact on a river's capacity to serve climate adaptation.

¹¹ In line with the European Landscape Convention