

European Fund for Strategic Investments (EFSI): Focus on low carbon, clean energy and resource efficiency investments to maximise both short term wins and long term sustainability

Summary

The European Commission President Juncker's 'Investment plan for growth and jobs' is aiming at mobilizing EUR 315 billion of additional investments by 2018. A proposed regulation¹ setting up the framework of the EFSI is currently negotiated in the European Parliament and the Council and its adoption is envisaged for June 2015.

Our organisations consider that this regulation should give clarity on how the fund will contribute to the achievement of EU long-term objectives, its added-value for the EU and the expected benefits for European citizens. There are four priorities at stake:

- **The regulation governing the EFSI needs to ensure transparency and accountability of the use of the EU budget, stakeholders' involvement and a genuine scrutiny over the operations carried out at each stage (development of investment policies, pipeline of projects, selection criteria, implementation).**
- **The EFSI should focus on projects that simultaneously drive short term economic benefits and long term sustainability. More concretely all projects should bring clear low carbon and energy and resource efficiency added value.**
- **There is no rationale for the Fund to invest in high carbon energy and transport projects that expose the EU to high risk of carbon stranded assets.**
- **A fair risk balance needs to be found when employing financial instruments that de-risk private investment by passing the risk to public institutions and taxpayers.**

The need to clarify the principles and rules of the EFSI

Investments fostering the transition of Europe's economy towards a low carbon, clean energy and resource efficient path are urgently needed – in particular for the energy and transport systems. Significant financial efforts and political commitments are required.

In that context the proposed "Regulation on the European Fund for Strategic Investments"² governing the EFSI needs to be adapted to ensure transparency, accountability, added-value for European citizens, and non-ambiguous commitment to deliver on the EU's sustainable development objectives.

In particular it should take into account the following four principles and reflect them adequately in the Fund's regulation:

¹ COM (2015) 10 final

² http://ec.europa.eu/priorities/jobs-growth-investment/plan/docs/proposal_regulation_efs_i_en.pdf

1. Ensure transparency, accountability and stakeholder participation at each stage (development of investment policies, pipeline of projects, selection criteria, implementation)

- **Full transparency and involvement of stakeholders** should be ensured for the development of investments policies and guidelines and projects selection, in order to improve the project quality and ensure ownership and smooth implementation. All relevant information and analysis for each project should be publicly disclosed before the project approval. The partnership principle in use for European Structural and Investment Funds shows the way forward to involved stakeholders and should be followed. A public consultation on the Funds' investment policy/guidelines should inform the Steering Board in its initial policy setting.
- **Trade-offs between project quality and speed should be avoided.** The Project List³ recently published shows a risk that some Member States try to promote projects that are not in line with agreed EU priorities and could have negative social or environmental impact. Project selection criteria have to ensure that only projects with EU added-value in coherence with sustainable development principles will be selected (see below).
- The regulation should clarify that **all EIB procedures, standards as well as sectoral and horizontal policies will apply to any project** supported by the Fund instead of ad hoc fast track procedures. In every project full alignment with EU legislation should be ensured.
- The Investment Committee should include representatives from the EU institutions and the EIB, environmental and social independent experts, but should not include any industry representative.
- In parallel to a genuine role for partners and civil society, better involving the European Parliament in the governance structure of the Fund will be crucial to ensure full democratic oversight.
- The European Court of Auditors (ECA) should be given a clearer and more prominent role to ensure the rationale use of EU budget through the Fund.

2. Ensure long term sustainability of investments

In order to avoid random project support, key project selection and performance criteria should be applied that guarantee projects' full consistency with EU 2050 climate, resource efficiency and biodiversity goals⁴. Analysis of the Project List shows that Member States have proposed more than a trillion Euros' worth of low-carbon and socially useful investments⁵, that simultaneously drive short term economic benefits and long term sustainability – a double win that high-carbon projects fail to deliver. There is no rationale for the Fund to invest in high carbon energy and transport projects that expose the EU to high risk of carbon stranded assets.

- As a top priority, the Fund should focus on **energy and resource efficiency investments** (notably buildings energy refurbishments) – that are proven very cost effective, job intensive, improving EU energy and resource security and reducing EU vulnerability to external shocks (see Annex points 1 and 2). Worryingly, Member States with the highest dependence on Russian energy imports are proposing the least investments in energy efficiency and grids⁶, undermining Europe's energy security.

³ Special Task Force, *Annex - Project lists from Member States and the Commission*

⁴ 80-95% greenhouse gas emissions reduction by 2050 (compared to 1990 levels) and full restoration of EU biodiversity and ecosystem services (European Council of 25-26 March 2010)

⁵ E3G, *Europe's choice: low carbon growth or high carbon risk? Analysis of Member States proposals for the EFSI*, January 2015

⁶ *Op. cit.*

- The Special Task Force on the EFSI rightly pointed out that investing in resource efficiency and eco-innovation (...) can contribute to Europe's well-being⁷; the absolute de-coupling of economy development from resource use should be guided by appropriate targets and indicators.
- This should also include renewable energy generation, smart grids, electricity storage, railway transport and sustainable urban mobility, infrastructures for electric vehicles, green infrastructures (see Annex points 3 and 4).

3. Do not invest in projects locking the EU in carbon and resource intensive paths

- Money should not be spent in projects contradicting EU environmental targets, that may be stranded in 20 years, that aggravate the depletion of the European natural capital or that are not climate resilient:
- This primarily concerns any type of airport⁸ infrastructure⁹, new motorways and roads, and any coal, oil and nuclear infrastructure. In the Project List many projects are focusing on these sectors, raising high concerns.
- Given the falling gas demand and risk of overinvestment, the scope of support for gas infrastructures should be largely reduced. Large long distance pipelines and LNG plants should be avoided and the EFSI should carefully focus on regional investments fostering the use of biogas and reverse flows (see Annex point 5).

4. Strike a fair risk balance when employing financial instruments

- Socialising risks and privatizing profits has been at the core of the crisis, and it is the paradigm at the heart of the EFSI: in order to attract private investors the EFSI will be used to 'de-risk' investments in projects that face difficulties to attract capital. De-risking does not mean that the risk disappears, but that it is passed on to public institutions and taxpayers. The effects for EU public institutions and taxpayers should be thoroughly analysed and integrated and project with potential negative impacts should be ruled out.
- The EU 2020 Project Bond Initiative (PBI) should not be used as a model for developing new risk-sharing mechanisms under the EFSI. Indeed, content wise the outcomes and benefits for EU citizens of the pilot phase (2013-2014) are highly contested and the European Commission has still to deliver its evaluation of the pilot phase.
- Specific attention should be paid to the debt impact of risk-sharing mechanisms used under the EFSI during the project appraisal.
- The regulation should clarify that the EFSI is subject to the highest standards and new EU regulations related to anti-money laundering, fraud, corruption and fight against tax dodging and evasion.

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⁷ Special Task Force (Member States, Commission, EIB) on investment in the EU (2014), *Final Task Force Report*, p25

⁸ European Court of Auditors, 2014, Special Report "EU-funded airport infrastructures: poor value for money", http://www.eca.europa.eu/Lists/ECADocuments/SR14_21/QJAB14021ENC.pdf

⁹ Including dedicated rail connections between important airports and urban centres that lead to *increased* greenhouse gas emissions by facilitating the use of aviation at the expense of lower carbon modes of transport

ANNEX

SPEND THE MONEY IN SUSTAINABLE PROJECTS

1. Priority: Investments in energy savings

Investment in energy savings should be prioritized as they are able to leverage significant amount of private money, create local jobs as well as deliver long-term tangible benefits to European citizens.

Energy efficiency investments deliver:

- Three to four times the number of jobs created by comparable energy supply investments, i.e. coal-fired and nuclear power plants;¹⁰
- Reduction of energy costs for industry and households;
- Reduction of gas imports by 2.6% for 1% of energy saved;¹¹

Public investment in energy efficiency has a significant and **well proven capacity to leverage private money**. For example, each euro of public investment in energy efficiency can generate between €13-20 in private investment.¹²

Deep renovations of existing buildings are one of the most labour intensive activities in which the money invested has a **very high employment effect**. For every million euro invested in deep renovations, up to 17 new jobs are created¹³; this could help the recovery of the construction sector, which was one of the worst hit by the economic crisis. In addition, investments in energy efficiency of buildings **would deliver benefits to a large portion of EU citizens** through reduction of fuel poverty as well as improved living conditions.

Furthermore, energy efficiency investment **can be deployed more quickly** than other types of investment particularly when directed to facilitate the implementation of already adopted EU legislation, which is still lagging behind in many sectors.

2. Priority: Investments in resource savings

Resource costs make up a significant part of the cost structure of European business. These business also need available and predictable supplies. A Europe Innova study finds that **EU manufacturing firms spend on average 40% of their costs on raw materials (increasing), far more than labour costs (18-20%, decreasing) or energy costs**.¹⁴

Resource efficiency investments deliver:

- €270¹⁵ to 630¹⁶ billion per year of savings in material costs for the EU business according to different scenarios;

¹⁰ European Commission, *Doing More with Less, Green paper on energy efficiency*, (COM(2005) 265 final of 22 June 2005.

¹¹ European Commission (2014), *Impact assessment accompanying energy efficiency communication*.

¹² Jülich Institute (2011), *Impact on public budgets of KfW promotional programmes in the field of energyefficient building and rehabilitation*.

¹³ Ürge-Vorsatz, D. et al. (2010): *Employment Impacts of a Large-Scale Deep Building Energy Retrofit Programme in Hungary*.

¹⁴ Europe INNOVA (2012), *Guide to resource efficiency in manufacturing: Experiences from improving resource efficiency in manufacturing companies*.

¹⁵ Research by McKinsey & Co published in Ellen MacArthur Foundation (2012), *Towards the circular economy*.

- 100,000-200,000 new jobs for every percentage point reduction in resource use.¹⁷ A 30% improvement of EU resource productivity by 2030 could create over 2 million jobs¹⁸;
- Over 400 000 jobs by 2020 by recycling 70% of key materials¹⁹.

“Resource-efficient Europe” is a flagship initiative of the Europe 2020 strategy²⁰: on this basis the Commission published the 2011 **Roadmap to a Resource-Efficient Europe**.²¹ In addition, in the 7th Environmental Action Programme²², Member States and the European Parliament²³ agreed that the EU should establish indicators and set targets for resource efficiency, while a 30% resource productivity target by 2030 has been proposed by the Commission as part of its Circular Economy package.²⁴

Significant EFSI investments should match these policy developments on resource efficiency.

3. Renewable energy, grids and electricity storage

Renewable energy

The EU is committed to reducing greenhouse gas emissions to 80-95% below 1990 levels by 2050²⁵. **According to the European Commission’s 2050 Climate Roadmap²⁶, the most technologically and economically feasible means of achieving this is an almost-total decarbonisation of the energy sector by 2050²⁷.** This needs to be taken into account in addition to the 2020 and 2030 renewable energy targets.

In addition, in the wake of disruption of the financial system 2007 banking collapse and the wider economic problems in the Eurozone, there has been a rolling back in the availability of affordable and long-term bank debt for renewables. This reflects the commercial banks’ collective response to Basel III regulation, which requires a deleveraging, but also increases concerns about the stability of political support for low carbon investments and renewables especially.

There is therefore a strong case for the EFSI to support renewable energy projects, which are finding it increasingly difficult to secure affordable loans despite the fact that they build on solid long-term fundamentals.

Smart grids

Large electricity network investment is foreseen across Europe in coming years. Electricity transmission system operators (TSOs) are currently planning to increase their rate of investment by 70% by 2020²⁸. ‘Smart grid’ investments at the distribution level are particularly important for enabling decentralised generation. ‘Offshore grids’ are also needed both to connect offshore wind farms to shore and to help to manage variability through interconnecting power markets around the North and Baltic Seas region.

¹⁶ Europe INNOVA (2012), *Guide to resource efficiency in manufacturing: Experiences from improving resource efficiency in manufacturing companies*.

¹⁷ Cambridge Econometrics et al. (2014), *Modelling the Economic and Environmental Impacts of Change in Raw Material Consumption*.

¹⁸ GWS mbH (2001), *Macroeconomic modelling of sustainable development and the links between the economy and the environment*.

¹⁹ Friends of the Earth (2010), *More jobs, less waste – potential for job creation through higher rates of recycling in the UK and EU*.

²⁰ European Commission (2010), *Europe 2020 – A strategy for smart, sustainable and inclusive growth*, COM(2010) 2020.

²¹ European Commission (2013), *Roadmap to a Resource Efficient Europe*, COM(2011) 571 final.

²² Decision No 1386/2013/EU of 20 November 2013 on a General Union Environment Action Programme to 2020, *Living well, within the limits of our planet*.

²³ The European Parliament also issued the resolution of 24 May 2012 *A resource-efficient Europe* (2011/2068(INI)) asking for targets and indicators.

²⁴ European Commission (2014), *Towards a circular economy: A zero waste programme for Europe*, COM(2014) 398 final.

²⁵ European Council, October 2009

²⁶ European Commission (2011), *A Roadmap for moving to a competitive low carbon economy in 2050*

²⁷ European Commission (2011), *A Roadmap for moving to a competitive low carbon economy in 2050*, COM(2011) 112 final.

²⁸ Roland Berger 2010.

The deployment of smart grids could save €52 billion per year in the EU by reducing losses from electricity distribution and enabling greater energy efficiency.²⁹

The Commission's Impact Assessment on Energy infrastructure priorities for 2020 and beyond³⁰ estimates the needs of a huge €142 bn investment by 2020 for transmission, offshore grid and smart grid infrastructures - of which €45 bn (32% only) is estimated to be business as usual delivery while €90 bn (63%) is commercially viable. There is therefore a clear case for the EFSI to significantly support electricity infrastructure projects.

Electricity storage

Electricity storage is increasingly important to balance the growing renewable output. Financial support should concentrate on near-commercialised projects, which have significant short to medium term potential to alter energy infrastructure investments and achieve policy objectives.

4. Green infrastructures

Business as usual 'grey' infrastructures are not only usually quite costly, they are also often damaging and fragmenting ecosystems and are increasingly unadapted to climate change impacts. Climate change is already happening in Europe: EU damage from flooding is skyrocketing and reached at least €150 billion over the period 2002-2010³¹. It is well documented that extreme weather events in the EU will aggravate both in number and in scale.

The underlying principle of green infrastructures is that they can offer multiple benefits if the ecosystems they depend on are in a healthy state. They are generally characterized by a high level of return over time and can be a cost-effective alternative to 'grey' infrastructure and intensive land use change, because healthy ecosystems largely self-maintain for free instead of requiring expensive investments and maintenance costs.

Green infrastructure more efficient than technical solutions (Ireland)

In Anne Valley, an integrated wetland was constructed instead of installing a traditional water treatment plant. Not only is the wetland more efficient in clearing mostly livestock wastewater than a traditional plant, it also offers multiple benefits like flood control and climate regulation. Capital costs were €715,000 for the project - less than half the estimated cost of an equivalent traditional plant (€1,530,000). Annual maintenance costs are also lower. In addition €220,000 was spent on new tourism facilities which are creating additional economic value, impossible with a traditional plant.

Green infrastructures can lessen the impact of climate induced disasters, protect coastal cities vulnerable to climate change, achieve carbon savings at low cost, provide valuable ecosystem services – and create jobs³². Notably, floodplain restoration, peatland and wetland restoration have the potential to create large scale flagship projects. Floodplain wetlands secure drinking water supplies by replenishing groundwater, purify surface waters, offer cost effective climate change adaptation solutions and create sustainable tourism opportunities.

²⁹ Oracle (2011), *The Future of Energy – an independent report for Oracle Utilities*.

³⁰ SEC(2010) 1395 final

³¹ RPA and al. (2014), *Study on economic and social benefits of environmental protection and resource efficiency*

³² For more concrete examples see BirdLife, EEB, WWF (2012), *Biodiversity investments under Cohesion Policy – a smart contribution to reach EU 2020 objectives*

In the European Commission, DG Regio and DG Environment have developed valuable expertise on green infrastructures³³ and should be closely involved in the investment advisory “hub” to help building capacity on the potential shift from grey to more valuable green infrastructures everywhere possible.

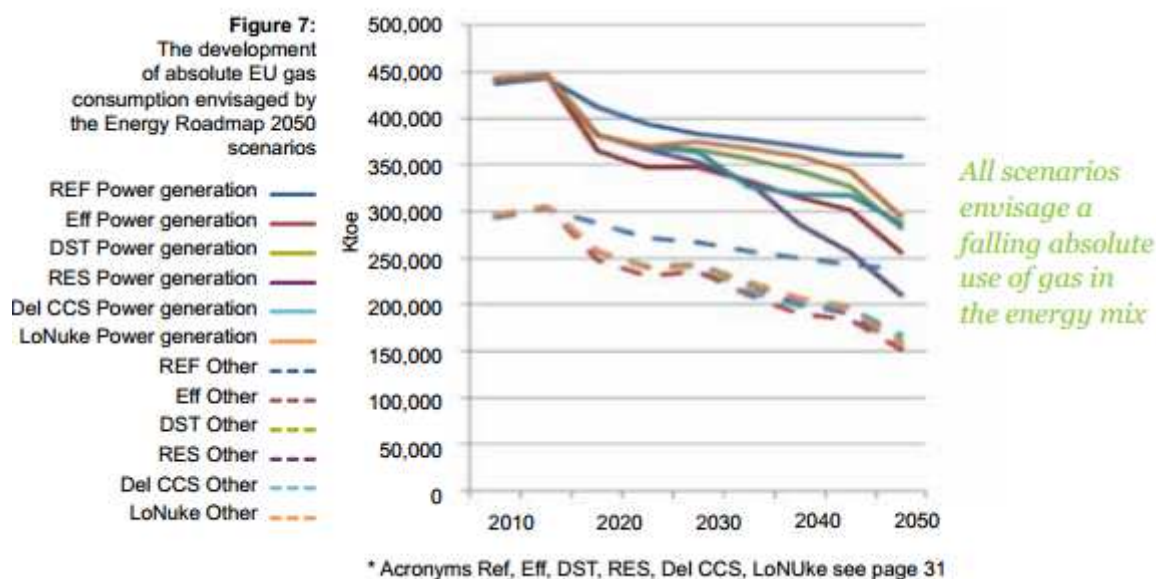
DO NOT SPEND THE MONEY IN PROJECTS LOCKING THE EU IN CARBON AND RESOURCE INTENSIVE PATHS

5. Risk of over-investments in gas infrastructures

The Ukraine-Russia crisis has focused the EU on energy security far more than before with a potential strengthened support for gas. In this context, it is critical to remind that:

1. All the European Commission 2050 Energy Roadmap scenarios³⁴ estimate that gas consumption in the EU will decline in absolute terms (see graph below³⁵);
2. Eurostat data show that EU gas consumption has peaked in 2005-2010 and has been sharply decreasing since 2010 – confirming the consumption trend of the 2050 Energy Roadmap (see graph below).

2050 Energy Roadmap scenarios for EU gas consumption



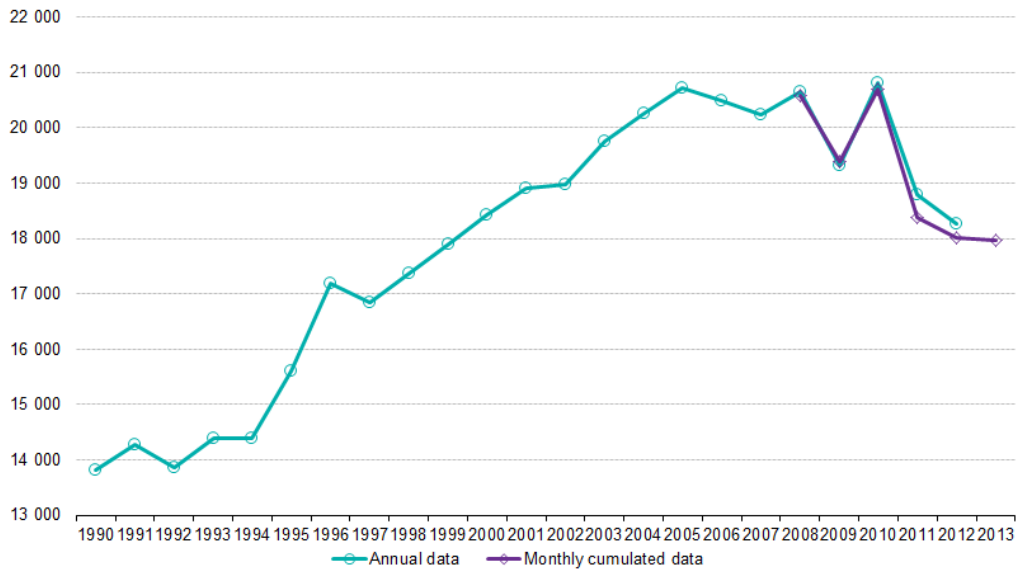
Source: European Commission, Energy Roadmap 2050, graph designed by WWF

³³ See for example DG REGIO (2013), The Guide to Multi-Benefit Cohesion Policy Investments in Nature and Green Infrastructure

³⁴ European Commission, Energy Roadmap 2050

³⁵ WWF, Cutting energy related emissions the right way, 2012

Gross inland consumption in EU-28 (in thousand terajoules)



Provisional data for 2013

(¹) Due to confidential data, Bulgaria is not included in the EU-28 aggregate for reference years 2011 and 2012.

Source data: nrg_103m, nrg_124m, nrg_134m

Source: Eurostat, Natural gas consumption statistics, May 2014

There is a huge pipeline of gas infrastructure projects in Europe – including upgrades to existing connections, new long-distance pipelines, intra-EU connections and domestic hubs for LNG. But the decreasing consumption of gas in the EU raises strong doubts on the actual need and the commercial viability of all of them.

As an example, there is a huge number of LNG projects in Europe (up to a hundred) but the existing ones are already largely idle: according to Thierry Bros, senior gas and LNG analyst at Societe Generale, European LNG deliveries dropped by 24% in 2013, in addition to a 30% fall in 2012³⁶. Adding to the economic trouble is that many import terminals in continental Europe are under take-or-pay contracts that force them to accept LNG deliveries even when demand is not there or pay stiff fines. This is strongly questioning the economic rationale of any new LNG investment in Europe.

Similarly, concerns are raised by the European Federation of Energy Traders whose gas committee chairman Doug Wood said: “While European gas usage has waned, governments across Europe are still building pipelines whether the market needs them or not”³⁷. It analysis the case of Russia delivering 50% more gas to Europe via the Nord Stream pipeline under the Baltic Sea directly to Germany in 2014 from the previous year, while cutting transit to Europe through Ukraine by 40%, according to OAO Gazprom and pipeline operator UkrTransGaz. In short, the Nord Stream pipeline being used more resulted in the Slovakia’s Eustream pipelines being used less and its revenue falling by 11%, raising economic concerns.

More generally a proliferation of new transmission pipelines, LNG terminals and intra-EU connections risk stranding assets and raising energy prices, since they are at risk of being over-built compared to requirements.

In addition the Commission’s Impact Assessment on Energy infrastructure priorities for 2020 and beyond³⁸ estimates that gas infrastructures need €71 bn investment by 2020 (twice less than for

³⁶ Reuters 20 September 2013, *Many European LNG terminals face idling, seek new activities*, <http://www.reuters.com/article/2013/09/20/energy-lng-europe-idUSL5N0HF3KD20130920>

³⁷ Bloomberg, EU risks stranding gas investments as block builds pipelines, 13 January 2015

³⁸ SEC(2010) 1395 final

electricity infrastructures) – of which €57 bn (80%) is estimated to be business as usual delivery, that does not need EFSI support. **The financial case for EFSI investment in gas infrastructure is thus far lower than for grid infrastructure** (see above Point 3).

The need for EFSI investments in gas infrastructures therefore needs to be scrutinised extremely carefully to avoid over-investment that would:

- Not be additional compared to business as usual delivery;
- Be sub-optimal economically;
- Lock-in future carbon emissions;
- Impede the development of low carbon energy efficiency and renewable alternatives.

Therefore, clear criteria are required to ensure that any potential EFSI investment in gas infrastructure is both fully justified on a long term economic perspective³⁹ and fully consistent with the 2050 EU climate goal. **The scope of support for gas infrastructures should be largely reduced:**

- **Large long distance pipelines and LNG plants should be avoided, as they would lock-in high carbon assets over a longer timeframe than what is required for EU decarbonisation objectives;**
- **The EFSI should carefully focus on regional investments fostering the use of biogas and reverse flows, as a means of extending the lifespan of existing assets.**

6. No investments in airport infrastructures

Aviation is the most carbon intensive mode of transport. Its quick development raises high concerns on its adequacy with the EU long term climate targets. Additional investments in airport infrastructures bear the risk of becoming carbon stranded assets in one or two decades.

In addition, the potential added value of EU public investments in airport infrastructures is strongly put into question. **A report recently published by the European Court of Auditors (ECA)⁴⁰ found that EU-funded investments in airports have not generated the expected results and have produced poor value for money.** Due to a lack of adequate planning and forecasting, say EU auditors, some of the funded airports were situated too close to one another, while some of the construction projects were too big for the numbers of planes and passengers involved.

The ECA examined investment projects at 20 airports – in Estonia, Greece, Italy, Poland and Spain – which received more than €600 million of EU money from 2000 to 2013. The main findings were:

- **Half of these airports could not show the need for EU-funded investment** and that funded infrastructure was often underused, with some €38 million worth not being used at all;
- For more than half of these airports, **air traffic forecasts significantly over-estimated increases.** In Cordoba, for example, fewer than 7 000 passengers travelled in 2013, against the 179 000 forecast;
- **For most airports there was little evidence of an improvement in customer service or of regional socio-economic benefits,** such as the creation of additional jobs;
- **Seven of the airports are not financially self-sustainable and will struggle to remain in operation** without more public money. In Greece, for example, Kastoria's revenue of

³⁹ Economic assessments should include the growing displacement of gas-fired electricity by renewable electricity in the next decades – reducing the need for baseload gas-fired electricity in favour of peaking production, that is more expensive per kWh produced

⁴⁰ European Court of Auditors, *EU-funded investments in airports provide poor value for money*, 16 December 2014, http://www.eca.europa.eu/Lists/ECADocuments/INSR14_21/INSR14_21_EN.pdf

€176 000 for 2005-2012 was dwarfed by the €7.7 million it cost to keep the airport open over the same period;

- For most of the audited airports, the auditors found delays in construction and in the delivery of infrastructure, with an **average delay of almost two years. Almost half of the airports experienced cost overruns**, which meant that the Member States had to spend almost €100 million more from their national budgets than initially envisaged.

As a result, the EFSI should not support airport infrastructures.