

January 2017

## Briefing on the legislative review of the European Fund for Strategic Investments (EFSI)

### EFSI support to fossil fuel projects

**Key recommendations:**

- In the energy sector, the EFSI needs to stop supporting fossil fuel projects;
- All EFSI projects should be climate-proofed in line with the COP21 commitments and the EU 2050 commitment to reduce GHG reduction by 80% to 95%.

In September 2016 the European Commission published its proposal for the prolongation of the EFSI until 2020, to be achieved by amending the existing regulation. We welcome several improvements, but are concerned that they fall short of properly tackling the challenges and shortcomings identified, namely to provide additionality and catalyse the unambiguous move to reduce GHG reductions. On the basis of our in depth report [Best Laid Plans](#), which analysed the 93 projects approved until July 2016 and further analysis of the EFSI entire portfolio till the end of 2016 under the Infrastructure and Innovation Window (IIW), we consider that the EFSI regulation needs considerable improvements in the energy area.

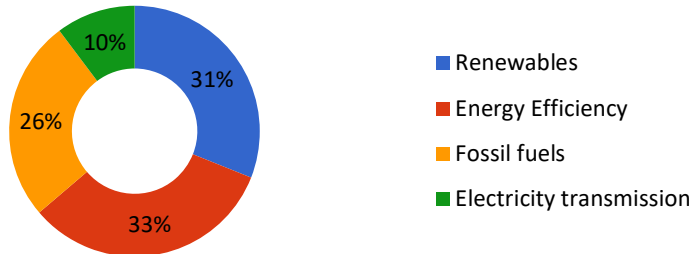
#### **The EFSI needs to halt its support to fossil fuel, in particular gas infrastructure projects and be aligned with EU climate objectives**

**In the energy sector, the EFSI provides significant support to new gas infrastructure projects.** By the end of 2016 the EFSI has granted **EUR 1.8 billion** to fossil fuel infrastructure projects, mostly gas, leveraging at least **EUR 5 billion in additional investments into this infrastructure**. Those gas investments mainly take place in Italy, Spain and Germany<sup>1</sup>, where the potential for renewable alternatives to gas is still underexploited, and at a time when these countries repeatedly make commitments to phase out fossil fuel subsidies<sup>2</sup>. These operations were approved without being scrutinized on the merit of their compliance with the EU 2030 and 2050 climate and energy frameworks. **This is of particular concern as the EFSI regulation already explicitly requires alignment with EU's long-term climate goals to reduce GHG emissions by 95% until 2050.**

<sup>1</sup> Except one project located in Romania

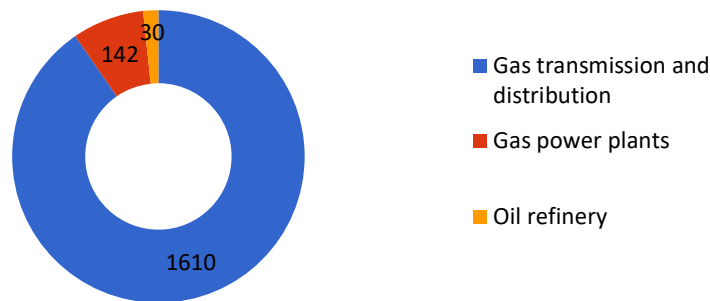
<sup>2</sup> For instance in the framework of G7 and G20 statements

### Subsectors in Energy supported by EFSI by end 2016



EFSI support to fossil fuel infrastructure exceeded 25% of its support to energy sector in general and this is a worrying trend as these investments are focused on new gas transmission and distribution networks, receiving over EUR 1.6 billion. This is as much as EFSI support for energy efficiency of existing buildings and infrastructure in Europe - supported with just EUR 1.7 billion.

### Approved and signed Fossil fuel projects supported by EFSI by end 2016 (EUR million)



These types of investments are a far cry from the innovative and zero-carbon projects that will help Europe meet the objectives of the Paris Agreement and help steer Europe on a sustainable path to build the renewable based, energy efficient and fossil fuel free infrastructure needed.

**There is a high risk that EFSI-supported gas infrastructure projects make gas more available and competitive and crowd out renewable energy projects and energy efficiency projects.**

**In addition, the high EFSI support for gas infrastructure projects can be questioned given the forecasts on EU gas demand:**

- According to Eurostat data, EU gas consumption has been decreasing for five years in a row since 2010 – unlike Commission’s forecasts – posing the risk of a lack of market demand for new gas infrastructure;
- The Commission’s 2050 Energy Roadmap scenarios<sup>3</sup> all show a decline of EU gas consumption in absolute terms, increasing the risk that gas infrastructure becomes a ‘stranded assets’;
- EFSI-supported gas projects take place in countries that are not particularly dependent on Russian gas<sup>4</sup>;
- The Commission believes that grids need twice as much investment as gas infrastructures by 2020<sup>5</sup>, while the EFSI is doing the opposite (**only EUR 700 million** was provided for electricity networks, almost three times less than for gas infrastructures);
- The findings from the Energy Union Choices research and modelling are that under normal market conditions, **Europe does not need any new cross-border gas infrastructure between Member States nor new import capacities into Europe or to secure supplies**<sup>6</sup>: it concludes that there is enough gas infrastructure in Europe to ensure security of supply.

The Paris Agreement should prompt the EU to strengthen its climate change mitigation efforts. Limiting public financial support for fossil fuel infrastructure is critical. At a time of decreasing EU gas consumption for six years in a row and projected reduced gas demand in the medium to long term future, this creates a high risk of sub-optimal investments and carbon stranded assets. In this context, EFSI should be a model financial instrument genuinely contributing to a low-carbon energy transition.

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<sup>3</sup> European Commission, Energy Roadmap 2050

<sup>4</sup> Clingendael International Energy Programme, Russian gas imports to Europe and security of supply.

Spain notably does not import Russian gas at all and Italy around 20% only of its gas consumption

<sup>5</sup> European Commission, Impact Assessment - Energy infrastructure priorities for 2020 and beyond - A Blueprint for an integrated European energy network (COM(2010) 677 final)

<sup>6</sup> Energy Union Choices (2016), A Perspective on Infrastructure and Energy Security In the Transition