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ENERGY DOUBLETHINK:

Contradictions at the EU bank in
combatting climate change

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INTRODUCTION

This year the European Investment Bank is expected to review its 2013 'Screening and Assessment Criteria for Energy Projects', also known as its Energy Lending Criteria, which governs the types of projects the bank can finance in the energy sector. The review will provide an opportunity to align the policy with recent European and global policy developments like the Paris Agreement, the accord under the United Nations Framework Convention on Climate Change.

While the Energy Lending Criteria recognises the challenges of climate change, it is not as ambitious as the Paris Agreement, which requires urgent action to limit temperature increases well below two degrees Celsius by ensuring financial flows are compatible with a pathway towards reducing greenhouse gas emissions and supporting climate-resilient development.

All EIB shareholders – the Member States of the European Union – have signed the agreement.

The energy sector is a significant recipient of EIB lending. Between 2013 and 2017, the EIB committed EUR 52.5 billion to the sector, representing 14 per cent of its entire portfolio. The majority of energy sector projects financed by the bank (84 per cent) were located within the

EU, where funding for fossil fuels infrastructure continues and support for sustainable energy projects is unequally distributed across the EU. In addition the EIB financed a number of companies with a high proportion of coal in their power and heat generation portfolios, or those that plan to develop new coal power capacities.

The review of Energy Lending Criteria is an opportunity to put the EIB's energy lending on the right track towards achieving the long term climate and energy policy objectives and ultimately reaching the goal established in the Paris Agreement.

The bank needs to shift its funds. As a first step, the bank should explicitly commit to end any support to fossil fuel energy projects. It should also refrain from financing electricity utilities until these have in place strategies that limit emissions from their portfolios well below the two degrees Celsius target, envision a transition towards energy production with low greenhouse gas emissions and prohibit the development or extension of any coal project. Lastly, the EIB should step up finance for renewable energy and energy efficiency projects, in particular small-scale, people-owned and controlled, decentralised projects in order to achieve goals for climate change, competitiveness and social inclusion.



1

Council conclusions on climate finance, October 2017, <http://www.consilium.europa.eu/en/press/press-releases/2017/10/10/conclusions-climate-change/>

2

Commission rules for spending 300 billion euros in Cohesion funds misses opportunity to push for protections to climate and the rule of law, https://bankwatch.org/press_release/commission-rules-for-spending-300-billion-euros-in-cohesion-funds-misses-opportunity-to-push-for-protections-to-climate-and-the-rule-of-law

3

Tracking Europe's progress on meeting 2020 climate and energy targets, <https://www.eea.europa.eu/articles/tracking-europe2019s-progress-on-meeting>

4

Carbon rising. EIB energy lending 2007-2010, <https://bankwatch.org/publication/carbon-rising-european-investment-bank-energy-lending-2007-2010>

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See more here: <https://bankwatch.org/project/southern-gas-corridor-euro-caspian-mega-pipeline>

POLICY CONTEXT

In June 2017 the European Council reaffirmed the EU's commitment to the swift and full implementation of Paris Agreement, including its climate finance goals, and to lead a global transition to clean energy. EU Member States have urged multilateral development banks to scale up climate-related investments and to further align their activities with the Paris Agreement and the Sustainable Development Goals, by developing in-country capacity for project design and implementation¹.

Still, the EU must prove its leadership in mitigating climate change. Despite setting new

energy efficiency and renewable energy targets for 2030 (to 32.5 and 32 per cent respectively) with the "Clean Energy for All Europeans" package, the EU has still failed to earmark enough funding to meet its modest target of 25 per cent in climate spending across the whole EU budget². The European Environment Agency indicates that if we continue the current pace of renewable deployment, the EU would meet the 2030 target of 27 per cent energy use from renewable sources, whereas in the energy efficiency sector the overall ambition level of countries is currently not enough to achieve the EU 2020 target of 27 per cent³.

EIB ENERGY LENDING TO DATE

In advance of the EIB's 2012 review of its Energy Lending Criteria, we analysed the bank's energy portfolio between 2007 and 2010 and found investments on the rise in both the renewable energy and fossil fuels sector. At the time, the EIB introduced an 'Energy Performance Standard' to screen out investments whose carbon emissions exceed a threshold level of 550g CO₂/kWh. This helped eliminate the most polluting forms of electricity generation from the EIB's portfolio.

Since then, Bankwatch has published annual reports indicating structural issues related to the disproportionate geographical concentration of EIB financing for renewable and energy efficiency projects in the largest EU economies. This trend also applies to the financing of fossil fuels projects - mostly gas transportation and distribution, like the Southern Gas Corridor, which were concentrated in Italy and Spain. The bank also continued financing utilities that produce electricity from coal and develop new coal projects.

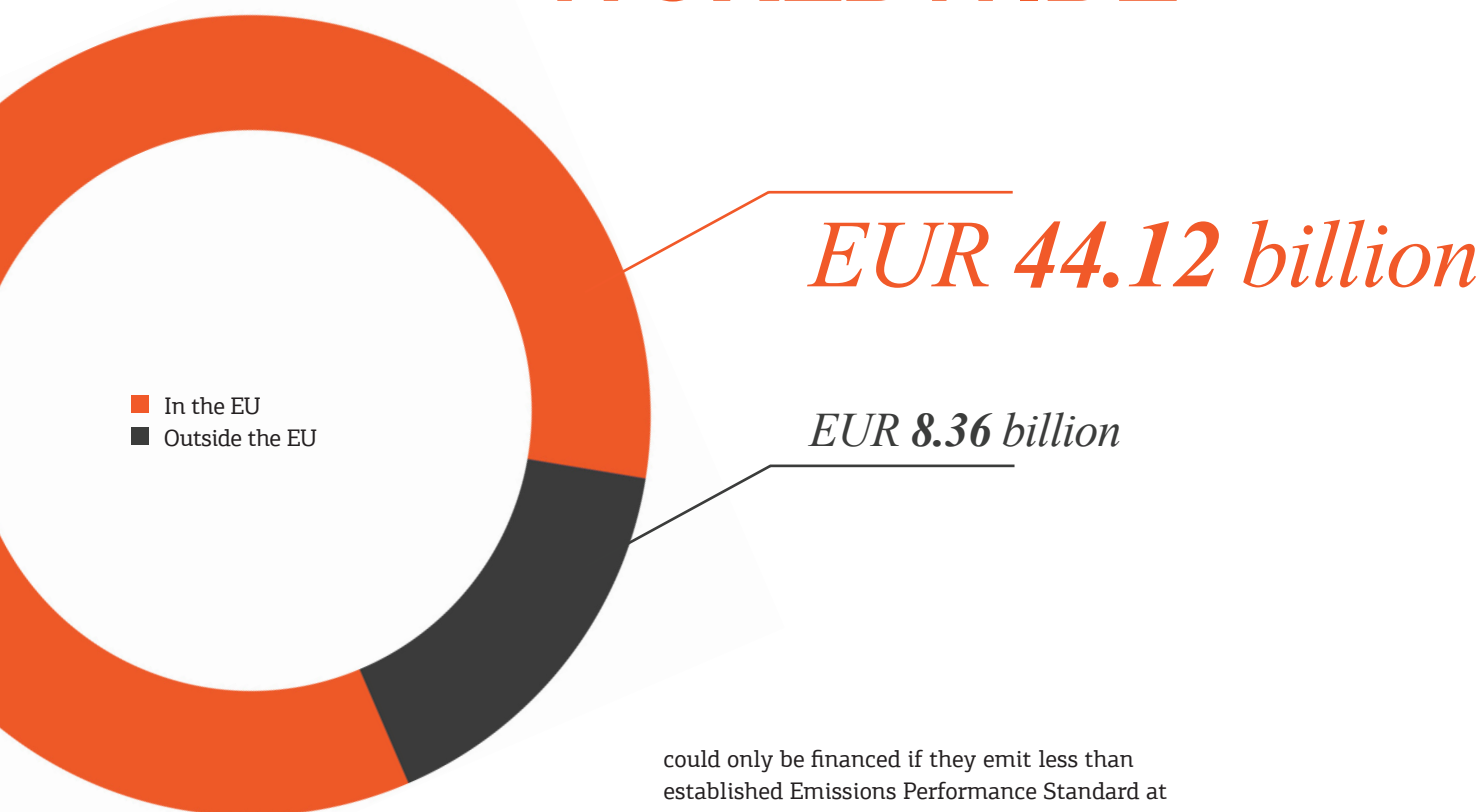
METHODOLOGY

This research is based on the list of projects published by the EIB on its website that it classifies within the energy sector. We assigned projects to categories based on the project description. In case of unclarities, information available from environmental impact assessments or a project promoter's website was used. Classification of projects financed through financial intermediaries was initially not possible, due to a lack of information, but a list provided by the bank helped assign projects to the proper

categories.

Energy efficiency is a cross sector objective and therefore is not a separate category in the energy sector lending. The EIB's Climate Action database is the basis of our research into its energy efficiency investments. This database is also the most comprehensive source of information on renewable energy investments, as it captures the renewable energy components of all EIB operations, including sectors other than energy.

EIB ENERGY LENDING WORLDWIDE



As an EU institution, the EIB should adhere to other EU policies regarding energy, climate change, external affairs and development. For its energy sector operations within the EU, the EIB should develop affordable, sustainable and secure energy sources through investments primarily in energy efficiency, renewable energy and energy networks. Outside the EU, similar types of investments should address problems of access to affordable, modern energy sources⁶.

The 2013 Energy Lending Criteria prioritised renewable energy as a way to break fossil fuel dependence within the EU and to address a key challenge in meeting the EU's 2020 energy objectives, where renewables account for 20 per cent of final energy consumption. Outside the EU, such investments were also prioritised in order to contribute to the UN's 'sustainable energy for all' initiative. On the other hand fossil fuel electricity generation projects

could only be financed if they emit less than established Emissions Performance Standard at the level of 550g CO₂/kWh⁷.

The bank also committed to increase its energy efficiency lending mainly for the buildings, transport and industrial sectors. Other types of energy projects remain eligible for EIB financing, including hydrocarbon extraction and production projects, nuclear and energy networks like gas pipelines.

This research looks into the trends in the EIB's energy sector lending regionally and over the time in such categories as renewables, energy efficiency and fossil fuels.

The energy sector is for the EU bank an important area of intervention. Between 2013 and 2017 the EIB committed EUR 52.5 billion to the sector, representing 14 per cent of its lending and the third-most financed sector after transport and credit lines through the financial intermediaries (17 and 34 per cent respectively). The majority energy sector projects financed by the bank (84 per cent) were located in EU countries.

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Energy Lending Criteria, 2013, <http://www.eib.org/en/infocentre/publications/all/eib-energy-lending-criteria.htm?f=search&media=search>

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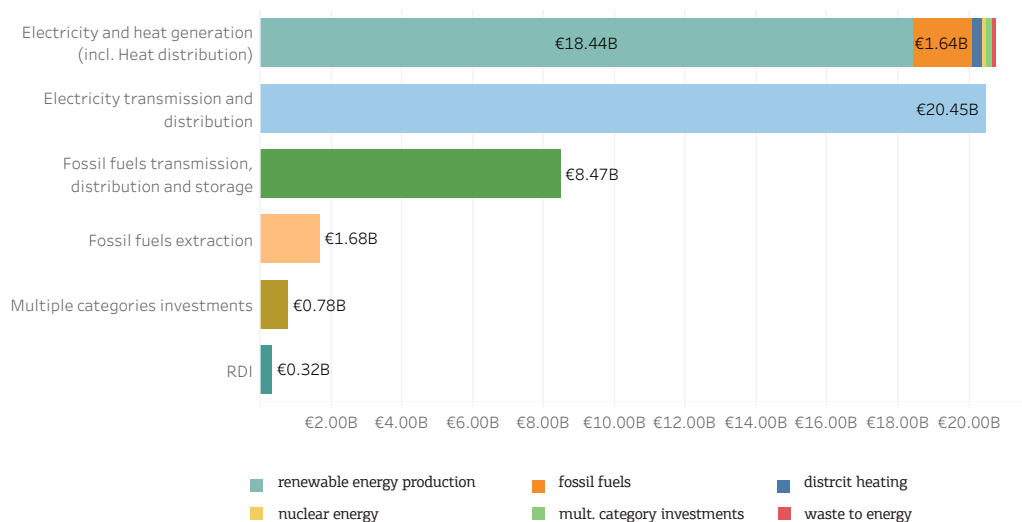
EIB Emission Performance Standard, http://www.eib.org/attachments/consultations/elpl_methodology_emission_performance_standard_20130722_en.pdf

LENDING BY SECTOR

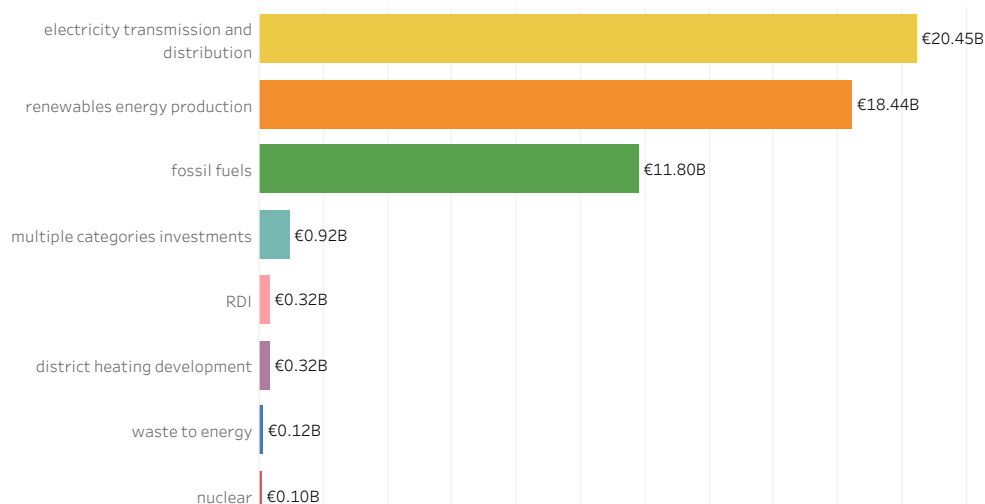
Energy investments were generally in line with the expectations and priorities set in the Energy Lending Criteria, with electricity and heat generation and electricity transmission and distribution as the most financed categories of investment, followed by fossil fuels extraction, transmission, distribution and storage. Within electricity and heat generation, almost 90 per cent of investments went for renewables.

But comparing the share of renewable investments (EUR 18.4 billion) with the total for fossil fuels (EUR 11.8 billion) shows that contrary to its stated policy objectives, the EIB is perpetuating the use of fossil fuels, particularly in several EU countries.

EIB energy lending 2013-2017, EUR billion, share in total



EIB energy lending 2013-2017, EUR billion, share in total

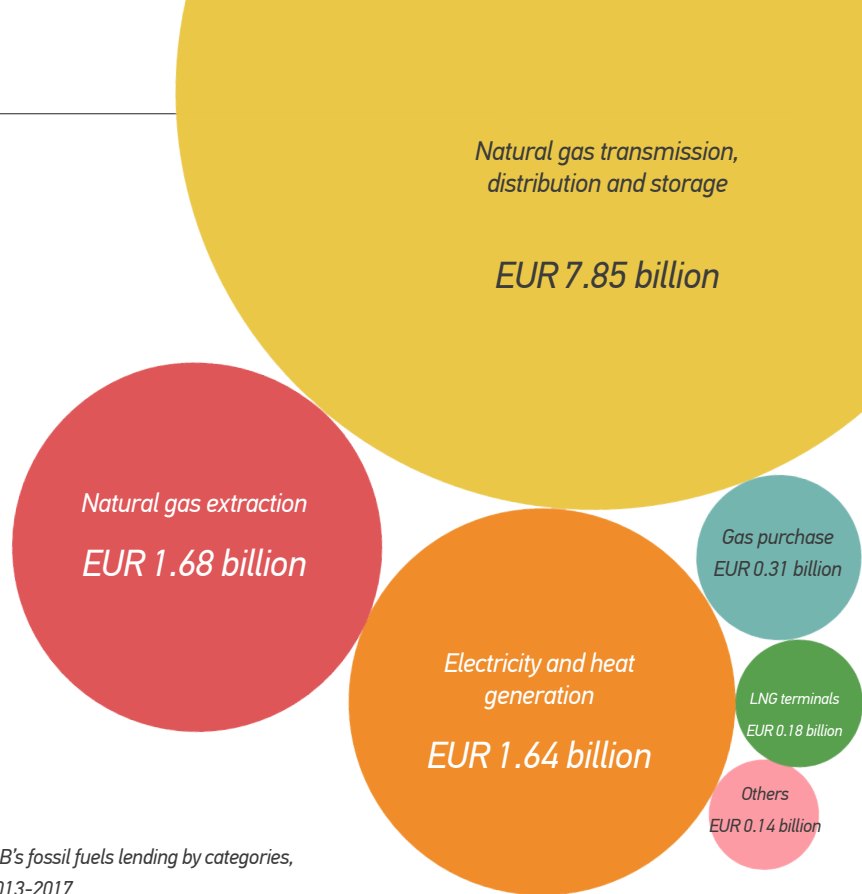


FOSSIL FUELS LENDING

At the time when Europe must immediately break up with fossil fuels, the almost EUR 12 billion in support of fossil fuels infrastructure from the EU bank cannot be considered negligible. Several recent and solid research and analysis suggest Europe must not continue fossil fuels infrastructure development plans⁸.

In 2013 the bank rightly decided to restrict its lending to fossil fuels based electricity generation projects by establishing Emission Performance Standard (EPS) of 550 g CO₂/kWh which has impacted its electricity generation and fossil fuel portfolios. Less than eight per cent of the EIB's investments in electricity generation could be assigned to fossil fuel based power plants.

EIB's fossil fuels lending by categories, 2013-2017



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A Perspective on Infrastructure and Energy Security In the Transition, March 2016; Cleaner, Smarter, Cheaper: Responding to opportunities in Europe's changing energy system, November 2017, Energy Union Choices; The '2°C capital stock' for electricity generation: Committed cumulative carbon emissions from the electricity generation sector and the transition to a green economy, Alexander Pfeiffer et al 2018 Environ. Res. Lett. 13 054019; Natural gas and climate change, K. Anderson, J. Broderick, Tyndall Centre for Climate Change Research, November 2017

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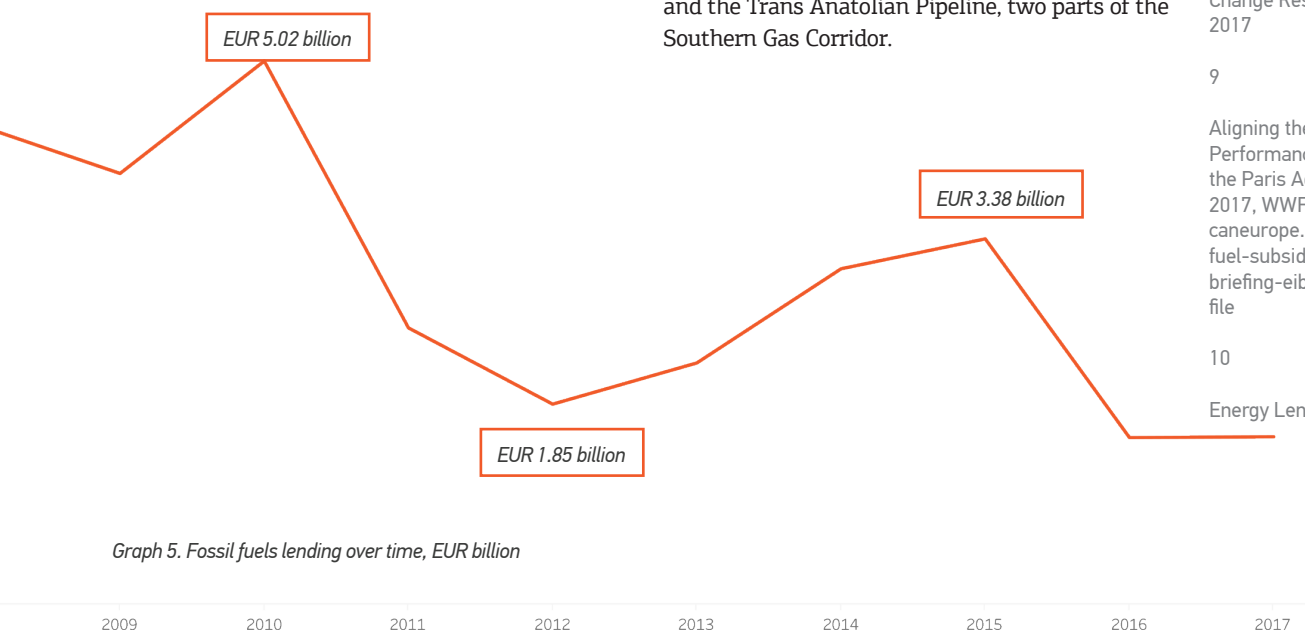
Aligning the EIB Emission Performance Standard (EPS) with the Paris Agreement, October 2017, WWF Europe, <http://www.caneurope.org/docman/fossil-fuel-subsidies-1/3234-ngo-briefing-eib-eps-review-oct17/file>

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Energy Lending Criteria, p. 40

In addition, emissions from these installations were far below the EIB's Emission Performance Standard, with two exemptions allowed by its Energy Lending Criteria⁹.

While the level of investments in fossil fuels has decreased over time, the EIB's involvement in the fossil gas sector has been stable. Between 2007 and 2012 the bank lent EUR 10.4 billion for the development and modernisation of Europe's fossil gas networks¹⁰, compared to EUR 8.3 billion between 2013-2017. However, this amount does not include the bank's recent commitment of EUR 2.8 billion for the Trans Adriatic Pipeline and the Trans Anatolian Pipeline, two parts of the Southern Gas Corridor.



Graph 5. Fossil fuels lending over time, EUR billion

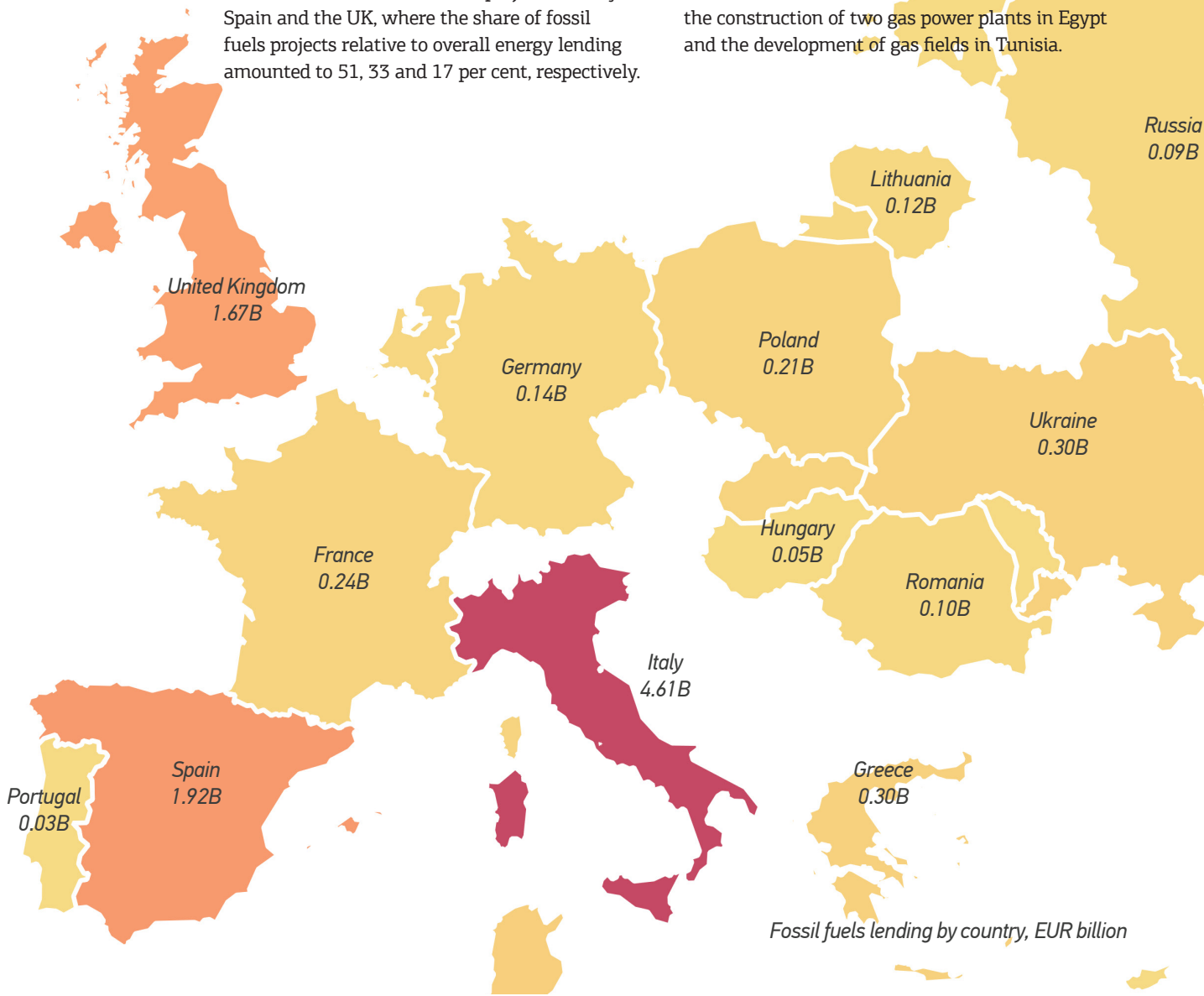
Loans to companies with a high share of fossil fuels

The Bank could also maximise potential emissions reductions gains if its loans to companies with a high share of fossil fuels in their power and heat generation portfolio were conditioned on the company committing to a decarbonisation plan aligned with the Paris Agreement prior to loan approval. One disconcerting trend highlighted by our research shows that between 2013-2017, the EIB provided EUR 3.9 billion to a number of companies with a high share of coal in their power and heat generation portfolios or which plan to develop new coal power capacities. These companies include Energa, Tauron and PGE in Poland, Endesa in Spain, PPC in Greece and CEZ in Czech Republic.

With the danger of carbon lock-in and stranded assets, no financial support should be given to companies planning new coal power capacity, including buying or retrofitting existing coal assets. Loans for distribution or renewables investments to companies that have a high percentage of fossil fuels in their portfolios could be improved by making sure that the EIB's impact goes beyond the individual project financed. Making financing conditional on company-level decarbonisation plans would greatly improve the bank's contribution, using its leverage to align with the commitments of the Paris Agreement.

The EIB funded EUR 10 billion in fossil fuels infrastructure and natural gas extraction, with natural gas infrastructure receiving the lion's share of funding. Within the EU, the bank invested billions in fossil fuels projects in Italy, Spain and the UK, where the share of fossil fuels projects relative to overall energy lending amounted to 51, 33 and 17 per cent, respectively.

In Italy the EIB funded EUR 1.3 billion in natural gas extraction. In Cyprus, Slovakia and Lithuania, fossil fuels investments dominated at 73, 56 and 36 per cent, respectively, of total energy lending in those countries. Outside the EU, the EIB financed the construction of two gas power plants in Egypt and the development of gas fields in Tunisia.



RENEWABLE ENERGY

Over 88 percent (EUR 18.4 billion) of investments in electricity and heat generation capacity were for renewables, with heat production receiving just a small portion in this category. In addition, according to the EIB's categorization, over EUR 5 billion were invested in electricity transmission projects directly related to renewable power generation.

Over the last decade, the bank's renewable energy investments have following trends across the EU. The European Environment Agency reported that the deployment in renewable energy has slowed in 2015 and 2016 compared to the average pace recorded since 2005 and warned that without clear national policies, it might slow even more after 2020¹¹.

Surprisingly, the European Fund for Strategic Investment, which since 2015 has provided guarantees for higher-risk EIB operations, did not help uphold the level of EIB support for renewables. With the share of renewables at 16.7 per cent at the end of 2015, the EU was on track with its trajectory, according to the Renewable Energy Directive¹².

However this pace would not be enough to reach the new target of 34 per cent of renewables in the EU's power mix by 2030. The International Renewable Energy Agency estimates that, in order to achieve this 34 per cent target, the EU will have to invest EUR 62 billion annually to accelerate deployment of renewables. It also noted that all EU countries have the cost-effective potential to use more renewables¹³.

When it comes to the type of renewables supported by the bank, almost half of its projects are wind energy, with a slight predominance of offshore installations. This

technology had the largest annual growth rate among all renewables technologies within the EU, and with its large investment costs is a perfect combination for the EIB to step in with a loan.

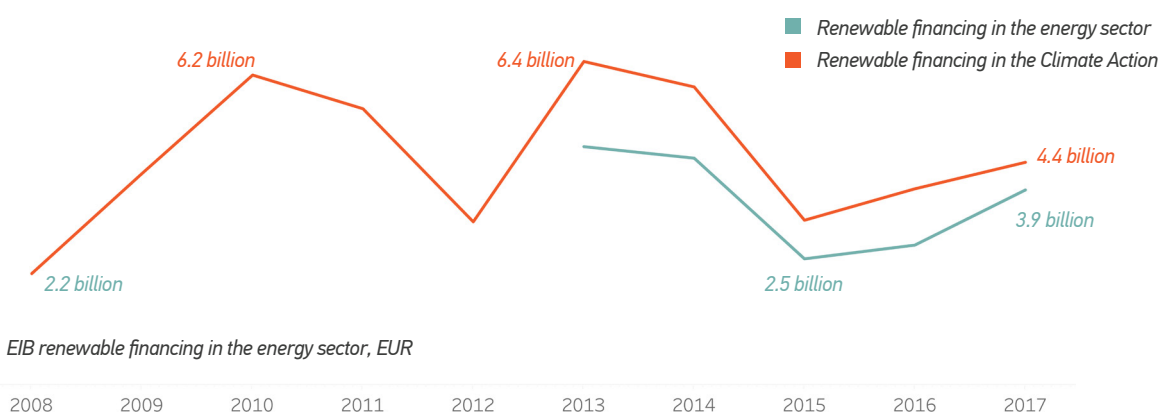
wind offshore	4.5B
wind onshore	3.9B
other RE	2.6B
hydropower	1.8B
solar PV	1.4B
biomass	1.3B
solar CSP	1.2B
geothermal	0.4B
pumped power station	0.3B
biofuel	0.03B

Renewable energy technologies supported by EIB

Environmental sustainability is one of the three indicators that the bank uses to assess the effectiveness of its operations. Apart from general requirements for projects to comply with its Environmental and Social Principles and Standards however, the Energy Lending Criteria does not include any specific sustainability criteria for renewable energy.

With certain renewables projects having significant potential to harm the environment and communities¹⁴, the EIB should develop detailed and stringent environmental and social sustainability criteria.

In 2018 the bank developed and consulted its Environmental, Climate and Social Guidelines for Investments in Hydropower Development, a welcomed development that should be repeated for other type of renewable energy technologies.



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Tracking Europe's progress on meeting 2020 climate and energy targets, <https://www.eea.europa.eu/articles/tracking-europe2019s-progress-on-meeting>

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Renewable Energy in Europe 2017, European Environment Agency

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Renewable Energy Prospects for the European Union, IRENA, February 2018

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See for example Financing hydropower in South-East Europe: <https://bankwatch.org/wp-content/uploads/2018/03/Financing-hydropower-southeast-Europe-web-fin-1.pdf>

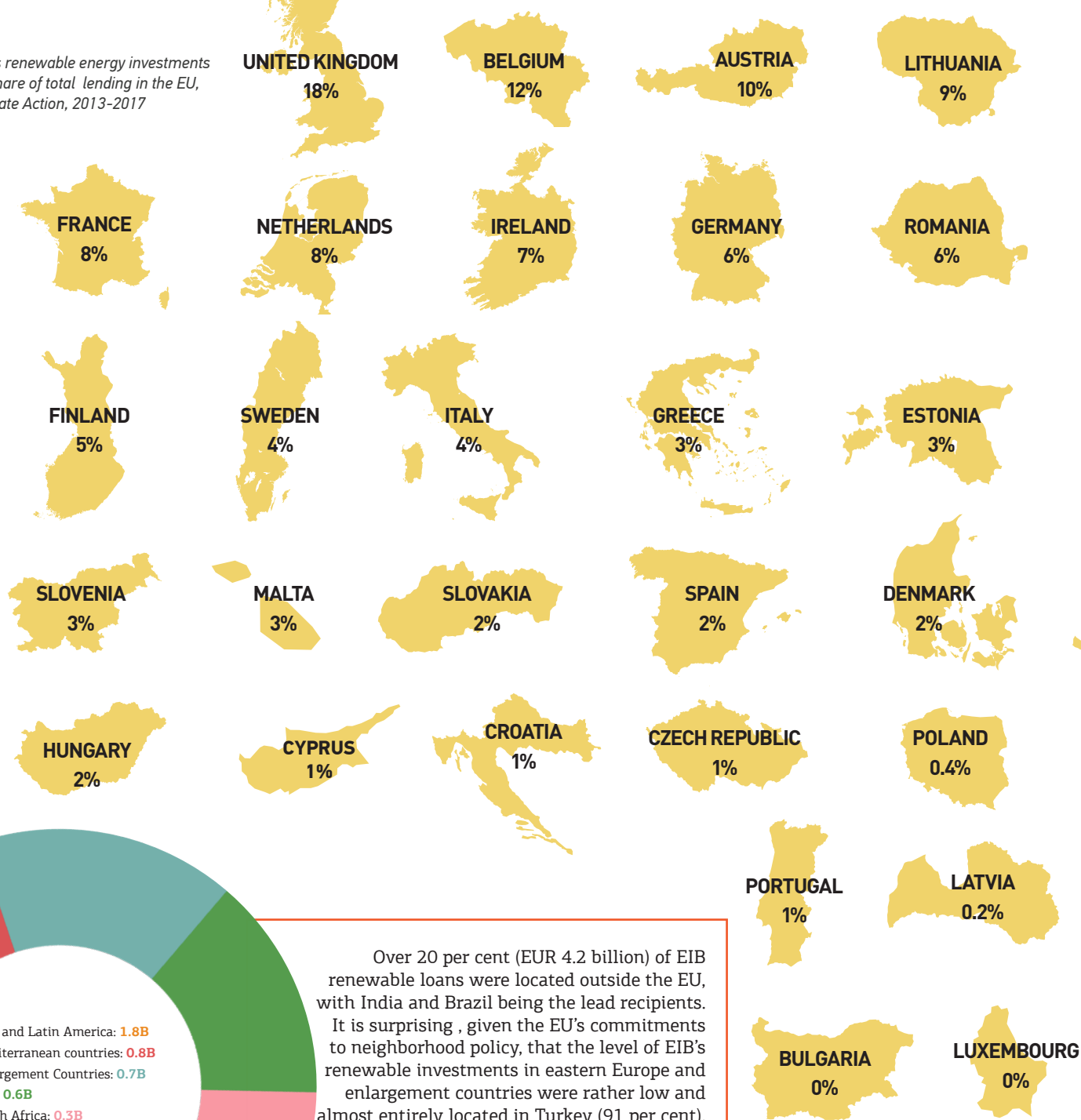
The bank should strengthen efforts to diversify which countries receive its funding for renewable energy projects. Between 2013 and 2017, while 5.7 per cent of the EIB's overall commitments within the EU were for renewables, many EU countries received little or no investments in this sector.

In its reporting on progress towards the objectives of the National Renewable Energy Action Plans and the Renewable Energy Directive, the European Environment Agency found that in 2016 in the share of renewables in as many as nine EU Member States was below the anticipated trajectories laid out in their corresponding plans.

In addition, the low level of EIB investments in renewable electricity production in some countries corresponds to a general trend where the share of renewables in electricity production is low¹⁵. Here there is a strong representation of central and eastern Europe EU countries, including Czech Republic, Poland, Estonia, Hungary and Latvia, in addition to Cyprus, Finland and Luxembourg.

To address this, the EIB could seek to turn National Energy and Climate Plans, with enhanced on-demand strategic advisory support, into a pipeline of tangible sustainable investment opportunities in renewable energy.

EIB's renewable energy investments as share of total lending in the EU, Climate Action, 2013-2017

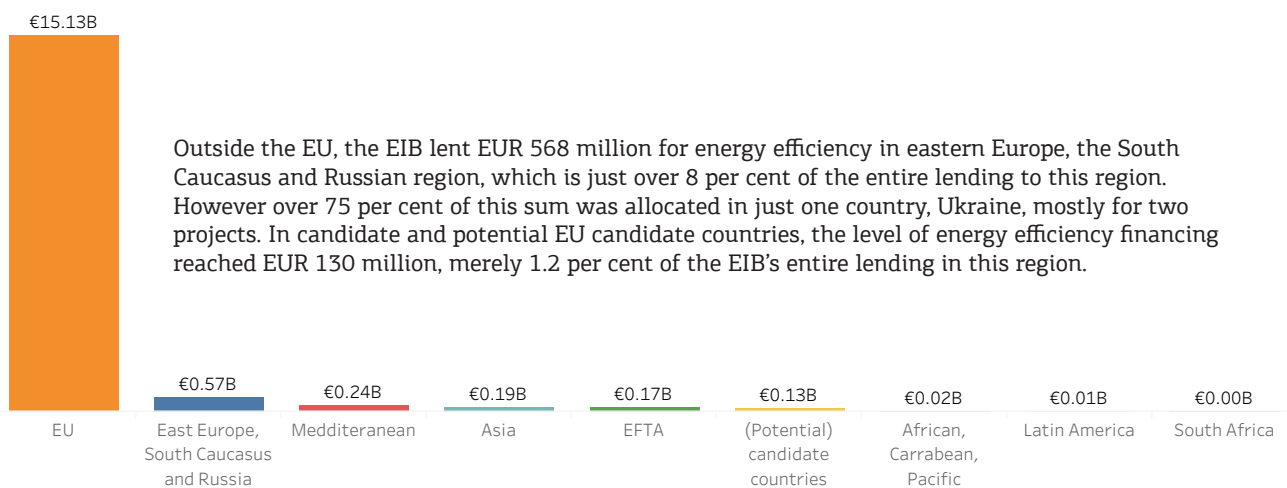


Over 20 per cent (EUR 4.2 billion) of EIB renewable loans were located outside the EU, with India and Brazil being the lead recipients. It is surprising, given the EU's commitments to neighborhood policy, that the level of EIB's renewable investments in eastern Europe and enlargement countries were rather low and almost entirely located in Turkey (91 per cent).

EIB's renewable investments outside the EU, 2013-2017



ENERGY EFFICIENCY



Energy efficiency lending by region, 2013-2017

Energy efficiency is a cross sector policy objective and may fall under various sectors such as industry, urban development, infrastructure and energy. The most comprehensive picture of the EIB's energy efficiency lending can be drawn from the bank's climate action reporting. This reporting is based on the EIB's energy efficiency eligibility criteria¹⁶.

The EIB rightly considers energy efficiency as the most cost-effective and rational way of reducing emissions and improving the security of the energy supply¹⁷. With the support of

various financial products, it has increasingly financed energy efficiency projects, with EUR 2.2 billion in 2013 and EUR 4.8 billion in 2017.

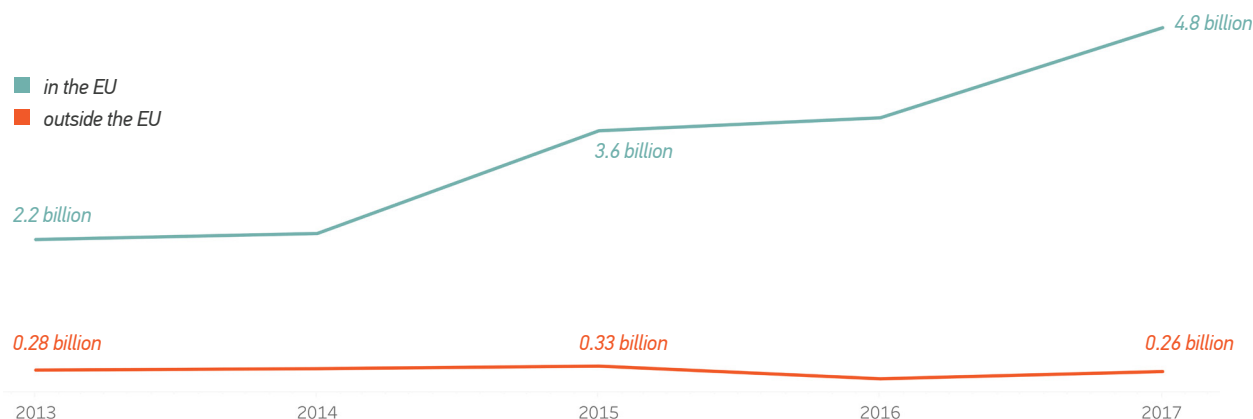
However outside the EU, this trend has stagnated. Of a total EUR 16.5 billion in energy efficiency projects between 2013-2017, the EIB lent just 8 per cent (EUR 1.34 billion) outside the EU. In relative terms, the EIB invests less in energy efficiency improvements in third countries. On average 4.5 per cent of the EIB's entire financing over the researched period contributed to energy efficiency. In comparison, just 3.5 percent outside EU and 4.6 percent in EU.

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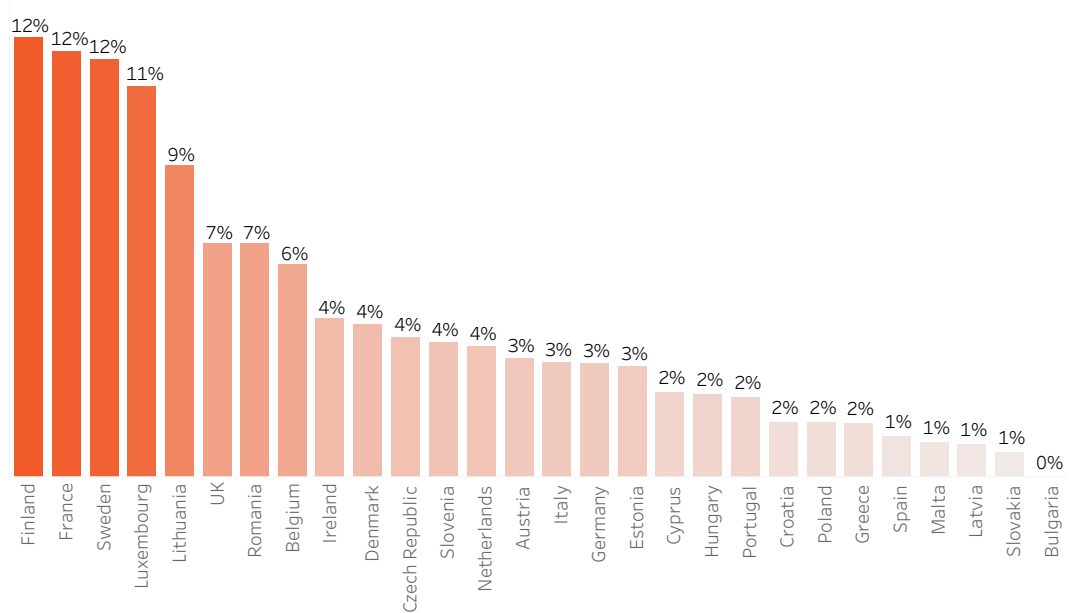
EIB Climate Action. List of eligible sectors and eligibility criteria; http://www.eib.org/attachments/strategies/climate_action_lending_eligibility_list_en.pdf

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Finance for climate action, EIB, 2016, http://www.eib.org/attachments/thematic/climate_action_en.pdf



EIB energy efficiency lending 2013-2017, EUR



EE investments in the EU, Climate Action 2013-2017, share of EE in total lending, %

The European Energy Agency found that primary energy consumption within the EU continued to increase in 2016 for the second consecutive year and that to reach the EU's proposed 30 percent energy efficiency target for 2030, primary energy consumption will have to be reduced by 23 per cent compared with 2005 levels, which can only be achieved if Member States step up efforts to keep primary energy consumption in check¹⁸. It also warned that national action plans on energy efficiency submitted by EU states in 2017 do not guarantee the EU's ability to meet its 2020 objectives.

Significant discrepancies exist across the Member States in terms EIB energy efficiency investments. In 18 EU countries the share of energy efficiency projects did not exceed 4 per

cent of total EIB lending in those countries.

The bank needs to assist Member States in stepping up national energy efficiency efforts, by being more proactive in proposing financial solutions to stimulate energy efficiency investments by smaller companies, municipalities, regions and individuals.

The next EIB energy policy should fully embrace the 'energy efficiency first' principle by considering the potential for energy efficiency solutions in all decision-making related to energy, in order to make informed investment choices by comparing energy efficiency and energy supply options and then only approving projects which would make the most sense in an energy efficient-economy.

RECOMMENDATIONS

The review of Energy Lending Criteria gives the bank the opportunity to align its energy financing with the Paris Agreement and catch up with the rapid developments in the clean energy sector, in order to provide the necessary financial boost for the deployment of renewable energy and energy efficiency.

To this end, the EIB needs to shift its funds from fossil fuels to renewable energy and energy efficiency projects, in particular for small-scale, people-owned and controlled, decentralised projects. In particular, the review will be a good opportunity for the EIB to:

- 1 Avoid the risk of locking in a fossil fuels-future by explicitly committing to end any kind of financing for this sector
- 2 Set its new Emission Performance Standard level at 200 g CO₂/kWh in order to send a strong signal to both power industry and investors
- 3 Make financing conditional on company-level decarbonisation plans
- 4 Strengthen efforts to diversify the location of its renewable energy projects across different regions within EU and beyond
- 5 Prioritise financial solutions for smaller, decentralised renewables projects
- 6 Strengthen efforts to diversify the location of energy efficiency investments, in particular by smaller companies, municipalities, regions and individuals across different regions within EU and beyond
- 7 Give special attention to social and environmental sustainability of renewables, in particular for the hydropower sector
- 8 Adopt the energy efficiency first principle to ensure that the projects it finances would make sense in an energy efficient scenario ■



CEE Bankwatch Network is today the largest network of grassroots environmental groups in countries of central and eastern Europe and a leading force in preventing dubious public investments that harm the planet and people's well-being in this region and beyond.

Operating since 1995 in countries that have undergone significant social and economic transformation, we have the know-how to effectively work in unpredictable environments from North Africa to Central Asia.

Together with local communities and other NGOs we work to expose their influence and provide a counterbalance to their unchecked power.

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