

For more information

Fidanka McGrath
EBRD policy officer
fidankab@bankwatch.org

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Comments on the EBRD Draft Energy Sector Strategy

On 8 October the UN Intergovernmental Panel on Climate Change (IPCC) released its Special Report "Global Warming of 1.5°C". The report warned that at the current level of climate commitments the world is on course for a disastrous 3 degrees Celsius of warming. It spelled out that half a degree difference between a temperature rise of 1.5 degree Celsius and 2 degree Celsius will significantly worsen the risks of irreparable habitat loss, extreme weather and poverty for millions of people on Earth. Reaching a 1.5 degree Celsius target is both affordable and feasible, while the costs of doing nothing would be far higher. For a 1.5 degree Celsius pathway carbon emissions will need to be cut by 45 per cent by 2030 (compared to 20 per cent under a 2°C pathway) and reach zero by 2050 (compared to 2075 in a 2C scenario). This would require carbon prices that are three to four times higher than those for a 2 degree Celsius target. The IPCC report called for urgent and unprecedented changes to our societies, as well as political will and an ambitious approach to implementing the Paris Agreement's pledges. It gave a clear signal to investors to shift financing in support of a transition to a low-carbon economy.

The IPCC Special Report adds further urgency to the calls for the EBRD to shift its investments and to explicitly commit to end any support to fossil fuel energy projects. This means the EBRD should abandon the idea of gas as a transition fuel and avoid over-promoting the role of gas, especially in countries like the Western Balkans where its use would require a significant expansion of infrastructure, risking stranded assets.

In addition, the bank should also stop indirect financing for fossil fuels¹² by conditioning financing for companies with significant fossil fuels assets on the development of decarbonisation plans. It should stop financing altogether for clients with significant carbon assets that are actively developing new or extending existing coal projects.

The EBRD needs to adopt the "Energy Efficiency First" principle, because demand response is the most cost-effective and rational way of improving the security of the energy supply, reducing emissions and energy poverty.

The EBRD should continue its progress with stepping up finance for renewable energy projects, paying particular attention to small-scale and decentralised projects, in order to achieve goals for climate change, competitiveness and



¹ CEE Bankwatch Network, September 2018, *The Long and Winding Road. European public funding for fossil fuel-dependent companies and the need for decarbonisation*, <https://bankwatch.org/publication/european-public-funding-for-fossil-fuel-dependent-companies>

² CEE Bankwatch Network, May 2018, *How can the EBRD maximise its leverage to bring about decarbonisation*, <https://bankwatch.org/wp-content/uploads/2018/05/Bankwatch-issue-paper-coal-heavy-utilities.pdf>

social inclusion. However, the EBRD should ensure the social and environmental sustainability of renewable energy projects, hydropower in particular.

Finally, the draft of the Strategy states that the EBRD will not invest in the construction of new nuclear power plants, but *“it will continue to consider funding for safety improvements of operating plants.”* Our experience with the Ukrainian nuclear safety upgrade programme showed that safety investments can lead to old nuclear reactors lifetime extensions that undermine the EBRD’s objective of decreasing nuclear risks in the region. Therefore we ask the EBRD to clearly state that any involvement in the financing of nuclear reactors should lead to their timely and safe closure and decommissioning, as well as to secure management of radioactive waste and spent nuclear fuel.

Decarbonised, energy efficient and inclusive economies

We welcome the EBRD’s draft Energy Sector Strategy’s focus on the transition to a low-carbon energy sector and sustainable energy and the stated strategic direction for the sector, namely:

- *Decarbonised economies that are highly efficient, powered by renewable energy and increasingly electrified.*
- and
- *Inclusive and energy-efficient economies that promote gender equality and deliver sustainable energy for all.*

The EBRD correctly identifies 3 drivers influencing its investment decisions:

- *The global challenge of climate change, driving increasing electrification of economies and decarbonisation of electricity.*
- *Concerns about air quality leading to fuel switching and electrification.*
- *Dramatic falls in the cost of renewable energy, which enables massive deployment of affordable low-carbon generation capacity.*

Gas as a “transition fuel” to a Global Warming of 3°C?

The draft Energy Sector Strategy mentions the Paris Agreement several times and specifies that global temperature increases must be kept to below 2 degrees Celsius. In light of the new IPCC report the EBRD must reconsider this target and adjust its climate ambition level to reflect better the IPCC scenarios and the need to limit warming to 1.5 degrees Celsius. The draft text several times mentions NDCs. These are for now insufficient to limit global warming, therefore the emphasis must be on achieving the goals of the Paris Agreement and following the latest IPCC findings, not only on NDCs.

In addition the Strategy relies on the IEA’s Sustainable Development Scenario, which offers just a 50% chance of limiting warming to below 2°C - far from the Paris Agreement’s commitment to well below 2°C and ambition to limit

warming to 1.5°C.³ Any Scenario used must be in line with the latest IPCC findings. On a positive note, in the draft of the new Strategy the EBRD simplifies and makes more effective its financing policy on thermal coal and thermal coal mining, halting direct financing for this sector altogether. This brings the bank a significant step forward to closing the loopholes in the existing policy. It is also positive that the bank is willing to assist countries to reduce their coal dependence, as long as it does not result in replacing coal dependence with dependence on other fossil fuels.

However, while placing some limitations on financing for gas, the draft Strategy generally gives it too much prominence as a so-called “bridging fuel” on the way to decarbonisation – much more prominence than is given to energy saving and even to sustainable renewables. This is, in our opinion, unwarranted, as the bank’s lending in recent years has shown that it is able to ramp up lending for renewables.

Despite the fact that the draft Strategy itself (p.41) admits that in the best case gas can only bring a 30% reduction in greenhouse gas intensity for power generation compared to coal, the draft vastly over-emphasises the role of gas in the energy transition.

The new IPCC report says primary energy from gas in 2050 (% relative to 2010) has to be -74 in the only scenario without carbon capture and storage, which means the electricity generation share of gas could only be approximately 8% of global electricity in 2050. If there is to be such a large reduction by 2050 it seems inappropriate to put such hopes in its role in the EBRD countries of operation.

The EBRD’s own analysis (p.41) shows that with gas leakage of 5%, gas has a worse climate impact than coal, and with 2% leakage the reduction of GHG emissions is only 30% in comparison with coal. Furthermore - different studies show that 5% leakage is more likely than 2%. These also include commercial losses (ie. unpaid bills) but these are not thought to make up the majority of losses.

If the goal of limiting climate change to 1.5°C is to be achieved, no more fossil fuel electricity generation facilities can be built at all since 2017, according to a 2016 Oxford University study.⁴

In addition, Oil Change International has shown that not only can no new fossil fuel power stations be built, but no new fossil fuel infrastructure at all. This is because the potential carbon emissions from the oil, gas, and coal in the world’s currently operating fields and mines would already take us beyond 2°C of warming, and even excluding coal, the reserves in currently operating oil and gas fields would take us beyond 1.5°C. This means permitting needs to be halted for new fossil fuel extraction and transportation infrastructure, and some fields and mines - primarily in richer countries – need to be closed before fully exploiting their resources.⁵

³ For more on this, see <http://priceofoil.org/2018/04/04/off-track-the-iea-and-climate-change/>

⁴Alexander Pfeiffer, Richard Millar, Cameron Hepburn, Eric Beinhocker: The ‘2°C capital stock’ for electricity generation: Committed cumulative carbon emissions from the electricity generation sector and the transition to a green economy, Received 11 September 2015, Revised 16 February 2016, Accepted 18 February 2016, Available online 24 March 2016, <http://www.oxfordmartin.ox.ac.uk/publications/view/2119>

In principle, it is positive that the EBRD has included criteria to limit gas financing, however, in the absence of a robust and elaborate methodology it is unclear how these criteria will work in practice. Our experience shows that for heavily politicised projects, such as the TAP and TANAP, criteria are able to be manipulated to justify their approval.

At the recent consultations EBRD staff have explained that the apparent focus on gas is more an issue of presentation in the Strategy than about the EBRD's real priorities, however the indicators for the Strategy also include "Number/volume of investments in upstream gas". This must be deleted.

Similarly, the draft Strategy's restrictions on oil investments are welcome but as shown by the studies above, do not go far enough. Neither upstream nor downstream oil or gas investments can be financed by the EBRD if we are to avoid catastrophic climate change.

Scaling up renewables, climate resilience and sustainability

Recent Bankwatch analysis⁶ of the EBRD energy lending in the period 2014-2017 shows that the bank lent around EUR 6.35 billion for energy-related projects. The proportion of investments dedicated to fossil fuels has declined somewhat to 41 percent between 2014-2017 (EUR 2.6 billion) compared to 48 percent from 2006-2011. However, absolute fossil fuel lending has been on a rising trend since at least 2010, peaking in 2016 at EUR 774 million with the largest fossil fuel loan, of EUR 417 million, was for the EU-driven Southern Gas Corridor project.

The picture looks quite different in new or additional electricity generation projects where 86 percent of financing went to renewables and just under 4 percent went to fossil fuels. The renewables investments here exclude large hydropower but do include other problematic investments such as small hydropower plants and geothermal plants in Turkey which are particularly CO₂-intensive. The bank made particularly large steps forward in financing solar in 2017, while investments in wind have stabilised and even slightly fallen since 2012. Solar investments have been particularly concentrated in Egypt but are also increasing elsewhere.

The findings show that in spite of setbacks in 2016, the EBRD is generally able to increase its business in renewable energy and add value to the green energy transition. This confirms, in our view, the need for the bank to concentrate more on this area and energy savings and to halt support for fossil fuels, including gas.

Very little attention is paid in the draft Strategy to this issue of climate resilience, and only with regard to hydropower in the most extremely hydropower-dependent countries like Albania. In fact this is also an issue in countries which have much lower percentages of hydropower (eg. Bosnia and

⁵Oil Change International et al: The Sky's Limit: Why the Paris Climate Goals Require a Managed Decline of Fossil Fuel Production, September 2016, <http://priceofoil.org/2016/09/22/the-skys-limit-report/>

⁶ CEE Bankwatch Network, October 2018, *EBRD renewable investments finally matched its fossil fuel investments in 2017. So why is the bank's draft Energy Strategy still fixated with gas?*, <https://bankwatch.org/wp-content/uploads/2018/10/EBRD-energy-briefing-October-2018.pdf>

Herzegovina, Croatia, Montenegro, Georgia). It should be clearer that diversification of renewable energy is needed also in these countries.

The draft Strategy is also lacking attention to sustainability criteria for renewables. While these are generally defined in the Environmental and Social Policy, the bank needs to join up its thinking around these topics. For example all the proposed scenarios for the Western Balkans involve an increase in hydropower from today's 8.2 GW across the region to 12-13 GW. However, given the region's extremely diverse habitats and high water quality in many places, there is in reality no way that such a heavy addition could be made to the hydropower fleet in the region and still be in line with the EBRD's Environmental and Social Policy and the EU's Water Framework and Habitats and Birds Directives. A recent briefing from Bankwatch⁷ analysing Annex F of the draft Strategy was presented at the consultation meeting in Belgrade on 19 October and is attached to this submission.

Overall, the Strategy needs to show more clearly that energy savings and demand response are the EBRD's highest priority, both within the energy sector and beyond. In terms of heat and power generation, it needs to capitalise on its recent gains in financing sustainable and climate-resilient renewables and make these much more the cornerstone of its Strategy, especially showing how it can contribute to the decentralisation of the energy sector.

⁷ CEE Bankwatch Network, October 2018, Western Balkans power sector future scenarios and the EBRD