

9 July 2020

## CEE Bankwatch Network submission to the EIB Climate Roadmap 2021-2025

This is the second Bankwatch submission to the EB Climate Roadmap. In this submission we would like to focus on some of the questions raised by the EIB in its position paper however we still consider our first submission is relevant for consideration under the ongoing review.

### Questions from EIB:

1. How can the EIB Group use the current health and economic crisis, related to the COVID-19 pandemic, as an opportunity to promote and accelerate the green transition?

CEE Bankwatch Network believes that post COVID-19 economic development must adhere strongly to sustainability objectives in its environmental, climate and social dimensions. Keeping climate action, ending extractivism and unsustainable logistic chains, promoting just transition and strengthening local economies, and adopting a human rights-based approach to development are all necessary if we want to enhance the resilience of communities and societies to future crises and prevent further economic and financial burdens from being added to the huge debt with which we will finance our recovery. As there is no doubt that climate change will unfortunately progress, we must not charge future generations twice by leaving them environmental degradation issues to deal with. Therefore, we have supported [the NGOs letter to the EIB's president](#), urging the Bank to move quickly to solidify its claim to be the 'EU Climate Bank', enhance its transparency, and become a central instrument for a sustainable, inclusive, and resilient recovery.

Under the Covid 19 economic recovery the EIB has been given access to additional funds and guarantees. These are a Pan European Guarantee Fund of EUR 25 billion to tackle longer-term economic difficulties, created by the EIB's shareholders; Solvency Support Instrument under the EFSI as well as the expanded InvestEU. These instruments should be used by the EIB, on one hand to step up its climate finance, but on the other, they should not support projects and corporates which cannot be reconciled with the low carbon future.

Many sectors of the economy have faced decline due to the lockdown. The opportunity (and challenge at the same time) in current recovery plans and stimulus packages manifests in a need for fast decisions which will shape the economic infrastructure for the next decades. Therefore available stimulus should be used to put the economy on the track of stable emissions decline and sustainable and inclusive development, towards more resilient societies.

For the EIB this means accelerating deployment of funding primarily for sustainable renewable energy sources, energy efficiency and innovations.

2. Should the EIB use an additional safeguard, above and beyond a standard economic test with a carbon price, in assessing the alignment of projects? If so, when and why?

The Bank needs to establish or review sectoral policies and lending guidance to mainstream climate considerations for transport, tourism, water, circular economy, industry and agriculture as well as review the current environmental and social policy framework to ensure sustainability of its climate and environmental lending.

The EIB's standard economic test relies on putting a price on carbon on relative project emissions. Such approach completely misses the point of testing projects alignment with climate objectives. Only absolute carbon emissions should be accounted for by the EIB economic tests. We disagree with how the bank calculates the relative carbon emissions based on the technology of the past, instead of the best socially, environmentally and economically feasible and acceptable option or the best option in terms of reaching the 2030 and 2050 emissions reduction targets. We have presented detailed comments on this issue in the 1st submission to the EIB Climate Roadmap.

A better and more straightforward approach would be to simply eliminate projects which are at odds with the climate and environmental sustainability commitments. The EIB should thus develop its own 'brown taxonomy' for operations which will not be covered under its climate and environmental sustainability lending – at least as long as the EU does not develop an EU brown taxonomy. The Climate Roadmap should exclude the activities in high-carbon sectors that are identified as 'brown' according to the taxonomy, and such a taxonomy should also serve as a basis for the review of relevant EIB sectoral policies. The concept of 'brown taxonomy' was proposed by the Technical Expert Group on sustainable finance. The brown taxonomy would serve as an additional dimension of the EU taxonomy in order to address a situation commonly known as 'green washing': *'Identifying an environmentally harmful economic activity as partially green carries significant risks, such as leading the market to believe that any performance improvement is good enough even if the underlying activity and its potential performance is ultimately inconsistent with environmental goals over the medium to long term'*. The Group called for the establishment of this brown taxonomy in order to complete the sustainable one.

3. How should the EIB approach supporting "hard to abate" sectors – such as energy-intensive industry, airports, strategic roads, agriculture – to decarbonise?

Another sector where the EIB should restrict finance for high carbon projects is transport. The Bank continues supporting highways, the car industry as well as development of new airports and their expansion. While rail and public transportation indeed remain the most supported by

the EIB, in the last four years the Bank has granted EUR 11.5 billion in loans to motorways and aviation. Given that aviation is by far the most carbon-intensive sector and that it is already heavily subsidised via tax exemptions and other benefits, the EIB needs to significantly revise its lending approach. EIB's investments in airports and motorways should be significantly restricted and limited to investments in safety measures. Investments in highways cannot be reconciled with the low carbon future even if all vehicles will become electric. They simply cause other detrimental impacts to the environment and biodiversity through fragmentation of territories and space consumption. A review of the Transport Lending Policy, shifting the Bank's lending toward measures to significantly reduce demand for unsustainable transport modes and to reduce the sector's overall climate impact, will be conducted in 2020. In this sector the EIB should eliminate financing for high carbon projects such as highways and aviation.

4. Under what conditions should the EIB support new industrial capacity? Would the conditions proposed ensure EIB projects are consistent with a low-carbon pathway.

a) The Bank could also maximise potential emissions reductions gains if its loans to companies were conditioned on the company adopting a decarbonisation and climate change adaptation plan aligned with the Paris Agreement prior to loan approval. The conditions proposed in the position paper, such as "*The project is associated with an ambitious and feasible plan to decarbonise by 2050*", is not enough to ensure that the project finances is truly a part of a strategy. First, the project EIB considers to finance must be an integral part of the company decarbonization and adaptation strategy showing short term and long term objectives and realization plans. **The strategy itself should be based on a climate audit taking stock of the company emissions and climate change vulnerability, be accompanied by a feasible investment plan, be adopted by the company governing body and be always publicly available. Annual reports from the implementation of the strategy should also be publicly available.** The EIB may consider assisting the company in conducting a climate audit or developing decarbonisation and adaptation strategy, however it seems very unlikely that the EIB's clients have not already been taking climate factors into account in developing their business and investments strategies.

b) With the danger of carbon lock-in and stranded assets, no public financial support should be given to companies planning new fossil fuel power capacity, including buying or retrofitting existing coal or gas assets. As fossil fuels are becoming not only an environmental but also financial liability, supporting companies planning new coal power plants directly contradicts the EIB climate commitments and ability to steer the European economy towards decarbonisation at the horizon 2050.

c) Decarbonisation plans should also be required from EIB Group financial intermediaries. This is now good international practice among investors to develop investment portfolio decarbonisation strategies to catalyse transition to a low carbon economy, for example UNEP Finance Initiative.

5. What kinds of investments in transport systems should the EIB prioritise to simultaneously serve the goals of decarbonisation, accessibility in all regions and by all groups in society?

The bank should prioritise supporting zero-carbon transport infrastructure, urban public transport and trains, and zero-emission multimodal transport services. Electrification of urban public transport and pedestrian/cycling infrastructure need to be prioritised and local authorities assisted to ensure public participation and investment into these modes.

In Western Balkans, in the last four years, EIB investments in motorways and airports have been twice as high as those in rail and urban transport. The region's transport system is currently too reliant on roads and motorways, and short-haul flights have become common due to the poor public transport connections between countries. These trends, which EIB supports, are putting the region on an unnecessarily carbon-intensive trajectory. It is true that not all parts of the region have a completed motorway network, but this should offer an opportunity to leapfrog to a more sustainable transport system, rather than repeating the carbon-intensive travel patterns established in the EU. Sustainable transport needs to be made more prominent in the EIB's investments in the region, and railways and urban mobility put at the fore. Electrification of urban public transport and pedestrian/cycling infrastructure need to be prioritised and local authorities assisted to ensure public participation and investment into these modes.

6. How should the EIB consider consistency with low-carbon development in the context of supporting small and medium enterprises through financial intermediaries?

a) Lending through financial intermediaries remains a significant part of the EIB's portfolio. In 2019, out of the EIB's entire lending of EUR 60 billion, one third went to financial intermediaries for on-lending, mostly to SMEs and Mid-Caps. EIB lending policies also apply to intermediated lending; however, given financial intermediaries' limited capacity for conducting relevant due-diligence as well as the EIB's limited capacity to ensure intermediaries comply with the Bank's policies, stringent precautionary measures need to be developed by the EIB. **This would mean that certain types of projects would be explicitly restricted, such as those involving fossil fuels or hydropower energy.**

b) In addition, the EIB needs to require that a part of its lending through financial intermediaries be directed to projects that significantly contribute to climate change mitigation and adaptation and meet the technical criteria of EU's sustainable finance taxonomy. Now when the EIB's climate action lending in the EU has reached well above 28% of its total lending, only roughly 10% of the EIB's loans to financial intermediaries have contributed to climate change mitigation and adaptation. As the EIB's intermediary lending usually targets smaller scale projects by SMEs, mid-cap companies and local authorities, the Bank must ensure that on one hand they have access to climate action finance and on the other that financial intermediaries actively

seek to support transformative projects and develop their internal capacities (expertise, staff) in doing so.

c) In 2015 Climate Strategy the bank committed to develop an approximate assessment of the overall footprint of financially intermediated lending and equity operations. The outcome of this work has not been presented publicly. Currently at least a third of the EIB Group operations are not properly assessed and cannot be considered climate-proof.

7. Do you foresee the need to adopt different standards inside and outside the EU in defining technical criteria for non-climate objectives under the European Union Taxonomy (water, pollution prevention, circular economy and biodiversity)?

The EIB shall apply the same standards inside and outside the EU. Unfortunately currently it is unclear what technical criteria and emission standards the EIB applies for projects outside the EU.

It is the responsibility of the EIB to define its environmental and social standards in a way that EU standards can be achieved in relation to its projects also outside of the EU. For example critical habitat assessments can play a role in making up for the lack of Birds and Habitats Directives if done properly. Likewise the principles from the Water Framework Directive relating to non-deterioration of water bodies can and must be applied at the project level, while the waste hierarchy can and must always be applied, irrespective of whether countries have recycling targets or not. On technical standards for pollution prevention, there is no justification for applying different standards outside the EU at the project level as health impacts are the same everywhere. In addition these projects are often realised by the companies from the EU or with the use of the European technology. The bank should not be taking part in projects which take advantage of the lower emissions standards outside the EU or which sell outdated technology outside the EU's borders. What can be more complicated is adherence to standards that are not related only to single projects, such as ensuring that projects do not contribute to breaches of air quality legislation. In this case, still EU air quality legislation should be regarded as a minimum standard to be adhered to, as it is in itself less stringent than the WHO recommendations on air quality limits necessary to protect health.

8. How can the EIB best promote the fast uptake of the EU Taxonomy amongst other financial institutions, both inside and outside the European Union?

If EIB Group intermediated operations are to be targeted towards climate action, they would need to adopt sound methodologies for tracking such projects. The EU Taxonomy should be used to account intermediated operations to the new climate and environmental sustainability target of the EIB Group. The bank should enhance its due diligence on financial intermediaries it cooperates with in terms of their internal capacities to track and report climate related projects. The EIB is already an observer in the UNEP FI project to assess the extent to which the EU Taxonomy on Sustainable Activities could be applied to core banking products which is an

initiative gathering european banks and their associations and which objective is to develop guidelines feasibility assessment of the EU Taxonomy to core banking products, share best practices and issue recommendations. The bank should involve actively in this initiative to promote the uptake of the EU Taxonomy.

Also the EIB should use the framework of Joint Methodologies For Tracking Climate Finance developed by the Multilateral Development Banks (MDBs), and the joint climate finance group of MDBs and the International Development Finance Club (IDFC) to review the Joint Methodologies and promote the specific criteria from the EU Taxonomy.

The EIB could also organise a series of trainings on the EU Taxonomy for EU countries' representatives in boards of international financial institutions, in order to promote the idea of Taxonomy on boards level.