Time for the European Investment Bank to take the lead on the clean energy transition

This year the European Investment Bank (EIB) - the world's biggest international lender - will review its Energy Lending Policy. Far from a merely internal policy process, its outcome will be decisive for EU citizens, European public finance and the climate worldwide.

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How will the review process work?

In January 2019 the bank has launched a public consultation on its new Energy Lending Policy (ELP). Stakeholders from institutions, industry and civil society are called to submit their contribution to the policy, which is then to be approved in Autumn 2019.

Our group of civil society organisations will contribute to this process to make sure the bank moves towards improved standards for its energy lending, reflecting the current climate urgency and the EU's commitments under the Paris Agreement.

What are the challenges the EIB should take into account?

The review of its Energy Lending policy is THE opportunity for the bank to show its leadership on the clean energy transition to fight climate change. Having portrayed itself as a climate champion in the last years - while still channelling huge support to fossil fuel projects, it is now time to substantiate its claims with concrete commitments.

This policy review gives the bank the chance to align its energy financing with the **Paris Agreement** and the global policy framework on climate change, and simultaneously to lead the multilateral development banks into the next generation of energy financing.

As the bank that lends the most money in the whole world, even more than the World Bank, its energy choices are key to set the world on the right path to fight climate change and lead the transition towards clean energy.

How can the EIB become a clean energy transition leader?

By **shifting its funds: from funding fossil fuels to stepping up finance for renewable energy and energy efficiency projects**, in particular small-scale and people-owned and controlled, decentralized projects.

Why is NOW the right time for a change?

As the bank of the European Union, the EIB's energy choices should reflect the EU's commitments under the Paris Agreement - the United Nations' accord to keep global warming well below 2°C above pre-industrial levels, and strive to limit the increase to 1.5 °C.

Indeed, while the EIB last reviewed its energy lending policy in 2013, in 2015 the Paris Agreement fundamentally changed the **global policy framework on climate change,** requiring that financial flows are compatible with a pathway towards zero greenhouse gas emissions and climate-resilient development.
As all EU governments - the shareholders of the EIB - have signed the Paris Agreement, a new approach to the bank's energy finance is simply necessary, as its current policy adopted in 2013 is largely outdated.

The EU also committed to phase out fossil fuel subsidies by 2025 under the auspices of the G7 and by 2020 under its own Environment Action Programme. As the financial arm of the EU, the EIB's lending choices should just reflect such engagements.

This review process will also run in parallel to the negotiations over the **post-2020 EU Budget**, in which the "EU Bank" is likely to be a strategic implementing partner of the European Commission. For the sake of **coherence**, greening the EU Budget needs to happen in connection to greening the financial arm of the EU.

What is more, the drops in costs of clean technologies have fundamentally changed the economics of the **clean energy transition**. Offshore wind costs have already dropped to what the EU expected them to be in 2050 in its roadmap. Recent solar and wind auction prices in Europe are below those of the EU's 2016 Clean Energy Package modelling for the year 2030. This is complemented by a global trend to phase out coal and a long-term trajectory of declining gas demand, as renewable energy is set to become cheaper than existing gas in the next decade.

Since then, there have been some global efforts in this direction. For example, at the latest Conference of the Parties of the UNFCCC - the COP24 - a group of Multilateral Development Banks including the World Bank, the Asian Development Bank and the EIB, announced a common approach to align their operations with the objectives set in Paris in 2015. Unfortunately, this contains no concrete commitment about the much-needed, complete phase out of their fossil fuels investments, that's why the EIB needs to set this change in stone in its next energy policy.

The recent 1.5°C report by the Intergovernmental Panel on Climate Change (IPCC)

The IPCC's *1.5°C report* is the latest analysis carried out by the by the Intergovernmental Panel on Climate Change. The study describes the devastating and even irreversible consequences of global warming beyond 1.5°C – with the world's most climate-vulnerable communities struggling to survive. According to the analysis, keeping the temperature rise "well below 2°C" will be thus insufficient.

The report warns that at current emissions rates, the world would breach 1.5 degrees by around 2040. In order to avoid this, deep cuts in greenhouse gas emissions must be achieved within the next decade, which means phasing out the largest source of greenhouse gas emissions – the oil, gas, and coal primarily for energy generation – will be essential and extremely urgent.

The EU is only so far considering committing to 'net zero emissions' by 2050. But as one of the regions most responsible for causing climate change, and most capable of responding, it needs to act at much greater speed and scale.

Gassing climate ambitions: EIB's track record of fossil fuels support and greenwashing

Between 2013 and 2017:

- **EUR 12 billion of direct support to fossil fuels** (more than EUR 1.8 billion of these investments was guaranteed by the EU's flagship financial instrument - the European Fund for Strategic Investments (EFSI) - in the last 2 years)
- almost EUR 4 billion to coal-heavy utilities
- the majority of EIB's investments in fossil fuels focuses on unneeded gas infrastructure

The Southern Gas Corridor

The most recent figures on EIB lending to fossil fuels, and in particular to gas infrastructure, got a considerable boost in early 2018, when the bank decided to channel **more than EUR 2.4 billion** into one of the most expensive (and controversial) infrastructure projects of all times: **the Southern Gas Corridor.**

Amid civil society's dismay, the bank decided on a EUR 1.5 billion loan to the Trans Adriatic Pipeline (TAP) - western leg of the corridor passing through Greece and Albania and landing on southern Italian shores - and a EUR 932 million loan to the Trans Anatolian Pipeline (TANAP) - the eastern "sister" crossing Turkey.

To the corruption, human rights, and above all climate-impact concerns brought up by civil society on the project, the EIB decided to turn a deaf ear and hide behind the political decisions of the European Commission and External Action Service.

What have other EU institutions recommended to the EIB?

The European Parliament has repeatedly called on the bank to take a more sustainable path for its finance, but its calls remained unheard. In particular, in its 2019 reports on the EIB, the Parliament criticized the EIB's lack of action on climate, and urged it to phase out fossil fuels:
The European Parliament:
"Notes the on-going review of the EIB Energy Lending Criteria; expects this review to be aligned with the 2015 Paris Agreement; reiterates the call to the EIB to prioritise its lending to energy efficient and small-scale, decentralised RES and to present an ambitious plan to stop funding fossil fuels' projects; calls on the EIB to aim to become a climate action leader and to increase investment in the renewable energy and energy efficiency sector, as well as to consider that goal as a priority in the revision of its energy lending criteria"

In parallel, the High-level group of experts on EU Sustainable Finance has also asked European public finance and the EIB to take a similar direction.

A burning issue: the Paris Agreement leaves no space for a fossil fuel future

The implementation of the Paris Agreement requires ambitious plans "*to pursue efforts to limit the temperature increase to 1.5 °C above pre-industrial levels*".

That is why the EIB should reduce the risk of locking us into a fossil fuel future by explicitly committing **to end any kind of finance to fossil fuel energy projects.**

Gas infrastructure

The biggest share of the EIB money to fossil fuels has recently gone to gas infrastructure projects. The EU has indeed made it a priority to guarantee the Union's "energy security", by building pipelines that would help diversify the sources of energy - promoting gas as a "cleaner, transition fuel".

BUT... is gas really clean and do we really need all these new pipelines?

Gas contributes significantly to climate change. Not only does it emit CO2 when it's burned, but it also inevitably leaks in the form of methane into the atmosphere. Methane is a dangerous greenhouse gas, 34 to 86 times more potent than CO2. Therefore, gas is nothing like a clean fuel. It is rather a polluting, climate-wrecking fossil fuel.

Plus, the demand for gas is set to decline as the EU moves to decarbonise its economy.

This means that - given the long average lifetime of 30-50 years for gas infrastructure assets - building new gas pipelines not only risks **locking in fossil** fuels by tying the EU to obsolete, climate-wrecking energy sources, but also squandering large sums of public money on expensive infrastructure that will end up as **stranded assets**.

How will decarbonisation affect the future demand for gas?

Already the newly adopted 2030 energy targets, with an energy efficiency target of 32.5%, and a renewable energy target of 32%, would result in a reduction of EU gas demand of 30% over the next decade.
Further decarbonisation efforts in line with the EU's Paris commitment towards 2050 will result in a de-facto end to the use of fossil gas. According to the European Commission's own calculations, consumption of fossil gas in the EU would plummet to below 50 Mtoe (Million Tonnes of Oil Equivalent) in 2050 in a decarbonisation context, from over 350 Mtoe today, and EU gas imports would therefore be reduced by up to 92%.

The EIB has so far funded extremely expensive mega-projects such as the Southern Gas Corridor, and considers support for other unnecessary gas projects across Europe like MidCat (whose STEP section has been now cancelled, threatening the viability of the whole project) and LNG terminals in Ireland, Croatia, Estonia, which will just slow down the changes we need and are doomed to end up as a debt burden for all of us.

Most of these gas projects make it onto the EU list of Projects of Common Interest (PCI) - a list of projects which get privileged access to EU, and often EIB's, funding, but are based on a skewed process dominated by the interests of the gas lobby.

The recent report by the IPCC tells us the pace and significance of the transformation of our energy system needs to accelerate if we want to avoid disastrous consequences for our planet, therefore we can't keep building new fossil gas infrastructure.

Excluding Fossil Fuel Exploration

The African Development Bank and Asian Development Bank already exclude finance to **fossil fuel exploration**. As the biggest world lender, the EIB must take the lead on the clean transition and expand on the World Bank's announcement to rule out investment in upstream oil and gas exploration and development by **phasing out immediately all oil and gas support.**

Excluding companies without a Climate Transition Plan

As the biggest world lender, the EIB has the power to pick who is fit for its lending. A recent report revealed that, while virtually halting their direct investments in coal in the last five years, the EIB has provided corporate level financing to fossil-fuel dependent companies.
If the bank wants its responsible climate action to resonate further than its direct loans, it should commit to immediately stop any support for energy companies that plan fossil fuels power, mining or infrastructure expansion or whose business is in any way reliant on fossil fuels (coal, gas and oil), and to support exclusively companies which have developed a Climate Transition Plan.

The Bank should also only support utilities which derive less than 30% of their power from coal, have less than 30% of their installed power capacity from coal, and have adopted well below 2°C compliant strategies to transition towards 1.5°C compliant greenhouse gas emissions energy production.

Invest in a fossil-free Europe

The European Environment Agency concluded that even to achieve the less ambitious goal of reducing EU-wide greenhouse gas emissions by 80-95% compared with 1990 levels by 2050, the deployment of **renewable energy** in the EU must accelerate and member states must step up their efforts to decrease primary energy consumption.

Renewable energy support for those who need it the most

Some countries are currently severely under-represented in the EIB's renewable energy lending portfolio, especially in Central and Eastern Europe.

In this context, we think that the bank should develop and disclose country-tailored approaches which identify barriers, opportunities and relevant financial mechanisms to step up its financial assistance to **small-scale and people-owned and controlled decentralised renewable energy projects** with a strong sustainability objective.

Energy efficiency, for all

When it comes to **energy efficiency,** the situation does not look any better: the EIB needs to become more proactive in proposing financial solutions that help stimulate energy efficiency investments by smaller companies, municipalities, regions and individuals. Delivering transformational improvements in energy efficiency is essential if Europe is to achieve its goals for climate change, competitiveness and social inclusion.

It is no coincidence that nearly three-quarters of the EU's 2030 clean energy investment gap – €130 billion each year – is accounted for by energy efficiency in buildings.

If the bank is to lead on the clean energy transition, the future 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. It should make informed investment choices, by comparing energy efficiency and energy supply options and only approve projects which would make most sense in an energy-efficient economy.

Where private finance is going : EIB cannot lag behind

As the global context changes and adapts to the climate emergency, private finance, too, has taken on the challenge to shift its funds towards a clean energy transition.

Here are some examples of forward-looking climate action initiatives that have lately been announced by some of the big groups of the international finance scene.

Allianz: the insurance group announced in May that it would no longer cover coal-fired power plants and coal mines, and "aim to get rid of all coal risks in its business by 2040", compensating with increased insurance to renewables.

ING: the bank recently decided to contribute to the Paris Agreement by no longer financing utilities that are over 5% reliant on coal fired power in their energy mix by the end of 2025, plus phase out their lending to individual coal-fired power plants by the same date.

As a public bank, representing the interest of the EU citizens and responsible for EUR 80 billion of loans per year, we expect the EIB to draw from these practices, and build on them to shape new Energy Lending Criteria suitable for the bank of the European Union.

-- Background information --

What happened when the EIB last updated its Energy Lending Policy in 2013?

The current Energy Lending Criteria adopted in 2013 were a first step towards a new approach by the bank to the energy sector. Following a fierce civil society campaign, the bank decided to tighten the criteria for fossil fuel power plants by setting-up the Emission Performance Standard (EPS) which practically ruled out most of the EIB lending to coal (not without exceptions), and helped eliminate the most polluting electricity generation installations from the EIB's portfolio. Also, under the guidance of this policy between 2013 and 2017 the bank has granted loans worth almost EUR 20 billion in support of renewable energy sources globally and at least another EUR 11 billion for energy efficiency.

Still, in a deeply-changed global context, such measures are now far from sufficient to reflect the climate engagements the EU has committed to under the Paris Agreement. New ambitious, forward-looking criteria for the EIB's Energy Lending are urgently needed.

Key sources and references:

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