

THE EU CLIMATE BANK

– Greenwashing or a banking revolution?

Counter Balance
Challenging Public Investment Banks

June 2020

ABOUT COUNTER BALANCE

Counter Balance is a coalition of 9 NGOs whose mission is to make European public finance a key driver of the transition towards socially and environmentally sustainable and equitable societies. Over the last decade, we have monitored extensively the operations of the EIB and led campaigns to make it a more sustainable, democratic and transparent institution.

More information is available at:
http://www.counter-balance.org/

ACKNOWLEDGEMENTS

Counter Balance would like to thank Clara Bourgin who drafted the report, and acknowledge the following people who kindly took the time to review all or part of this paper:

Anna Roggenbuck
Colin Roche
Samuel Kenny
Cécile Marchand
Sebastien Godinot
Elena Gerebizza
Teodóra Dönsz-Kovács
Jacob Sørensen
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Magdalena Heuwieser
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GRAPHIC DESIGN

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This report has been produced with the financial assistance of the European Union, the Polden-Puckham Charitable Fund, the European Climate Foundation, the Minor Foundation for Major Challenges and the Open Society Initiative. The contents of this briefing are the sole responsibility of Counter Balance and can under no circumstances be regarded as reflecting the position of the European Union, the Polden-Puckham Charitable Fund, the European Climate Foundation, the Minor Foundation for Major Challenges or the Open Society Initiative.

FOSSIL FREE EIB CAMPAIGN



The "Fossil Free EIB" campaign (**http://fossilfree-eib.eu/**) is a joint initiative of civil society organizations across Europe and beyond, coordinated by Counter Balance.

As organizations working to build equitable societies through sustainable finance and determined to protect our environment and our climate, we believe that public banks such as the European Investment Bank (EIB) should lead the way out of the fossil-fuel based energy system that has brought our planet to the current climate emergency.

Following a successful campaign around the energy policy of the EIB in 2019 and the decision of the bank to phase-out support to fossil fuels, the campaign now focuses on setting a precedent via aligning all of EIB operations with the Paris Agreement on climate.

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EXECUTIVE SUMMARY

In November 2019, the European Investment Bank took the commitment to align all its financing activities with the objectives of the Paris Agreement by the end of 2020 and step up its climate and environmental sustainability lending to become the "EU Climate Bank". Following substantial progress with the adoption of an energy policy ruling out most fossil fuels support, the EIB has gained significant credit for its efforts in the fight against climate change. As a result, **expectations for the EIB to effectively align with the objectives of the Paris Agreement are high.**

Still, the EIB has yet to deliver on its climate commitments. To achieve this, the bank is currently working on the creation of a Climate Roadmap for the period 2021-2025. This opportunity must be seized by civil society, EU institutions and the bank's shareholders if the EIB commitments are to materialize. There is a genuine risk of greenwashing and continuation of business as usual, especially following the multi-faceted COVID-19 crisis and the calls on the EIB to play a counter-cyclical role to alleviate the economic recession.

This report identifies the current weaknesses and areas for improvements for the EIB to contribute to the fight against climate change, and highlights key steps ahead for the EIB to truly become the "EU Climate Bank".

/ NOT YET A CLIMATE BANK /

As of today, the EIB still supports numerous environmentally and socially detrimental projects, especially in the energy and transport sectors.

During the period 2016-2019, the EIB financed high-carbon operations worth € 28.7 billion in the energy and transport sectors only.

REMAINING LOOPHOLES IN THE ENERGY POLICY

While the new EIB energy policy adopted in November 2019 is a key step forward, with the potential to strongly contribute to a just transition in Europe, it nevertheless contains three important exceptions that could undermine the realisation of its objectives:

>> **one.**
The policy allows the EIB to continue approving projects from the 4th list of the so-called 'Projects of Common Interest' until the end of 2021, which contains 32 new fossil gas projects.

>> **two.**
It enables the financing of new highly-polluting fossil gas infrastructure, on the basis of a vague promise that it will one day transport 'cleaner' gas.

>> **three.**
The current threshold (Emissions Performance Standard) set for power generation remains extremely high and risks allowing gas power plants to receive EIB loans.

Given the bank's commitment to align all its financing activities with the Paris Agreement by the end of 2020, it will need to implement its new energy policy in a stringent manner, making sure that these loopholes don't open the way to further financing of more fossil fuel infrastructure.

The EIB also indirectly supports coal and other fossil fuels through loans to polluting corporations. Despite having ruled out direct investment for coal in 2013, the bank has since then provided **€ 4.7 billion to companies with a high share of coal** in their portfolios or which planned to develop new coal power capacity at the time of the loans' approvals.

A TRANSPORT POLICY IN NEED OF RADICAL CHANGES

The EIB Transport Policy is largely outdated and currently enables the financing of polluting and carbon-intensive transport modes and infrastructure projects. Over the period 2016-2019, the bank has provided **€ 4 billion in loans for the expansion of airports, € 10.65 billion to roads, highways and motorways and € 2.83 billion to the maritime sector.**

If the EIB is serious about becoming the "EU Climate Bank", it must end its support to heavily polluting projects and instead prioritize funding for zero-carbon transport modes, such as electric urban public transport, bike lanes and rail electrification.

CLIMATE ACTIONS NOT IMMUNE TO GREENWASHING

The bank's "climate action" too often finances unsustainable projects. The category for instance includes the modernization of heavy industry, more efficiency in the automotive sector and fossil fuel projects such as natural gas heat and power cogeneration plants. Despite deploying considerable finance, the bank's approach to "climate action" needs to be revised to ensure that it supports projects that are truly transformative and sustainable.

/ THE MANY GREENWASHING TRAPS TO AVOID /

THERE ARE KEY AREAS TO WHICH THE BANK NEEDS TO PAY SERIOUS ATTENTION IN ORDER TO AVOID SUPPORTING GREENWASHING PRACTICES:

1 / THE FALSE PROMISE OF GREEN GAS

Gas companies are finding many ways to paint their industry green, promoting "green" and "renewable" gas as the way forward. The potential for truly sustainable renewable gas production in the EU is however only a fraction of what industry claims and will never be enough to substitute current fossil gas use. The strategies employed by gas companies to greenwash their business might enable them to continue receiving funds from the EIB and other public banks, despite these companies being unlikely to stop extracting fossil gas anytime soon.

2 / THE MYTH OF GREEN AVIATION

Similarly, the myth of "green aviation" risks enabling further public investments in the aviation industry on the basis that it will be possible to make flying sustainable in the future. While some improvements might be possible, the options proposed thus far imply several problematic consequences and distract us from addressing the root of the problem, which is the growth of the aviation sector.

3 / THE RISKS OF BANKING ON NATURE

The trend towards green finance, carbon and biodiversity offsetting and nature-based solutions also bears significant risks. Offsetting mechanisms present several unsolvable issues which makes them particularly unfit for truly protecting nature. They also tend to perpetuate injustices, with cases of land grabbing, community displacements and human rights abuses.

4 / CLIMATE OVER HUMAN RIGHTS?

So-called "green" projects undertaken under development objectives can also have highly detrimental social impacts. Projects funded by the EIB are no exception. Serious steps need to be taken to ensure that the bank does not fund additional damage to the environment and local populations. A "do no harm" and "only do good" approach should prevail.

5 / INFRASTRUCTURE MEGA-CORRIDORS: A DEVELOPMENT MODEL AT ODDS WITH THE PARIS AGREEMENT

The EIB support to infrastructure mega-corridors stands at odds with its climate commitments. This model is having devastating environmental impacts, despite efforts at European level to label this agenda under the heading of "sustainable infrastructure". The EIB should support the relocalisation of industry and agriculture instead of scaling-up efforts to finance infrastructure projects that are disconnected from the needs of citizens and territories.

KEY RECOMMENDATIONS

DO'S

1. ALIGN ALL OPERATIONS TO A 1.5°C SCENARIO
2. DELIVER ON THE FOSSIL FUELS BAN
3. MAKE ANY FUNDING CONDITIONAL ON CLIENTS' DECARBONIZATION PLANS
4. PUT JUST TRANSITION AT THE HEART OF THE EIB'S STRATEGY
5. RAISE THE BAR ON TRANSPARENCY
6. PRIORITIZE PEOPLE'S WELLBEING AND ENVIRONMENTAL PROTECTION

DON'TS

1. FUND AIRPORTS AND MOTORWAYS
2. FINANCE FOSSIL GAS THROUGH THE BACK DOOR
3. SUPPORT DIRTY INVESTMENTS VIA COMMERCIAL BANKS AND INVESTMENT FUNDS
4. BET ON NICHE FUTURE TECHNOLOGICAL SOLUTIONS
5. CONTRIBUTE TO THE GLOBALISATION OF VALUE CHAINS THROUGH MEGA-CORRIDORS
6. SUPPORT DOOMED CARBON AND BIODIVERSITY OFFSETS

INTRODUCTION

Several key political figures across Europe, from French President Emmanuel Macron to the European Commission's President Ursula Von der Leyen, promised during the campaign for the May 2019 European elections to transform the EIB into the "EU Climate Bank" in order to strengthen climate investments across Europe[1].

1 See: https://euobserver.com/tickers/145435 and https://www.climatechangenews.com/2019/03/06/macron-puts-climate-bank-eu-election-agenda/

Article from Bloomberg, 12 July 2019

Bloomberg

Climate Changed

Macron's Dream of a Climate Bank Gets Boost From New EU Leader

Partly as a result of this political push, the EIB – the financial arm of the European Union – is currently trying to position itself as the **"EU Climate Bank"**.

In this context, at the end of 2019, the bank took the following commitments:

Unlock € 1 trillion of climate and environmental investments until 2030;

Allocate at least 50% of EIB finance to climate and environmental sustainability by 2025;

By the end of 2020, align all its financing activities with the goals of the Paris Agreement.

The EIB also took a major step in November 2019 by adopting a new energy policy under which the bank commits to **stop lending to fossil-fuel energy projects by the end of 2021**. Together with the prioritization of energy efficiency and renewable energy investments, the policy holds the potential to strongly contribute to a Just Transition for all in Europe and to the EU climate objectives on the horizon of 2050.

In parallel, the new European Commission wants to put **the EIB at the core of future investment initiatives under the European Green Deal** and its financial pillar, the Sustainable Europe Investment Plan. As part of the current negotiations on the future EU budget for the post-2020 period, the role of the EIB in tapping into guarantees from the EU budget – especially under the future InvestEU programme and Just Transition Mechanism – is also under discussion.

Some EIB shareholders – with France in the front row – are even advocating for a capital increase of the bank in order to reinforce its financial firepower in the fight against climate change.

All these recent developments mean there is a strong momentum surrounding the EIB's transformation into the "EU Climate Bank".

Still, the EIB has yet to deliver on its climate commitments. To achieve this, the bank is currently working on the creation of a Climate Roadmap for the period 2021-2025

Tweet from the EIB, 30 January 2020



But this opportunity must be seized by civil society, EU institutions and the bank's shareholders if the EIB commitments are to materialize. There is a genuine risk of greenwashing and continuation of business as usual. If urgent action is not undertaken in 2020, the EIB will be nowhere near Paris-alignment.

This transformation into the "EU Climate Bank" is all the more important considering **the EIB will play a flagship role under the EU economic recovery package following the COVID-19 crisis** and its dreadful economic consequences. The EIB will, on the one hand, develop a € 40 billion emergency package, while on the other hand, it will expand its activities with € 200 billion of financing thanks to the creation of a € 25 billion fund provisioned by EU Member States.

Given the long-term perspective of EIB loans and operations, this necessary economic response to the COVID-19 crisis must be complementary to the efforts to steer the European economy into a more sustainable and fairer path.

This report aims to identify the current weaknesses and areas for improvements for the EIB in the fight against climate change, and to highlight the key steps needed for the EIB to truly become the "EU Climate Bank".

WHAT IS THE EIB?

The European Investment Bank (EIB) is the European Union's investment bank and its financial arm. The shareholders of the EIB are the 27 EU Member States. The bank is the largest multilateral financial institution in the world. In 2019 alone, the EIB Group invested a total of € 72.2 billion into a wide variety of projects and operations.

METHODOLOGICAL NOTE

For this report, we used data extracted from the EIB website and annual reports and compiled by our member group CEE Bankwatch Network. The reference period for data collection was from January 2016 to December 2019: the period during which the EIB Climate Strategy has been in place. The report focuses mainly on the energy and transport sectors – which are the largest sectors for EIB direct loans, as well as on what the EIB categorizes as "Climate Action". Nevertheless, there are sectors of the EIB activities that we could not explore in great depth, such as its support to carbon-heavy industrial sectors or the climate impacts of other operations, for instance in the fields of health, agriculture and research & innovation.

CHAPTER 1

The State of Play:
The EIB not yet a climate bank

We are facing a climate emergency with devastating consequences for people and the environment. The Intergovernmental Panel on Climate Change (IPCC) has warned that exceeding a temperature rise of 1.5°C will exacerbate extreme climate events, rising sea levels, coral bleaching and loss of ecosystems, among other impacts[2].

According to the most recent UN Emissions Gap report, countries would need to reduce emissions by 7.6% a year to meet the 1.5°C target. Yet, emissions worldwide have been increasing by 1.5% per year in the last decade[3].

The time to act is now. **If the right actions are taken, the EIB can become the first public bank to truly align with the Paris Agreement, and set an example for other financial institutions.**

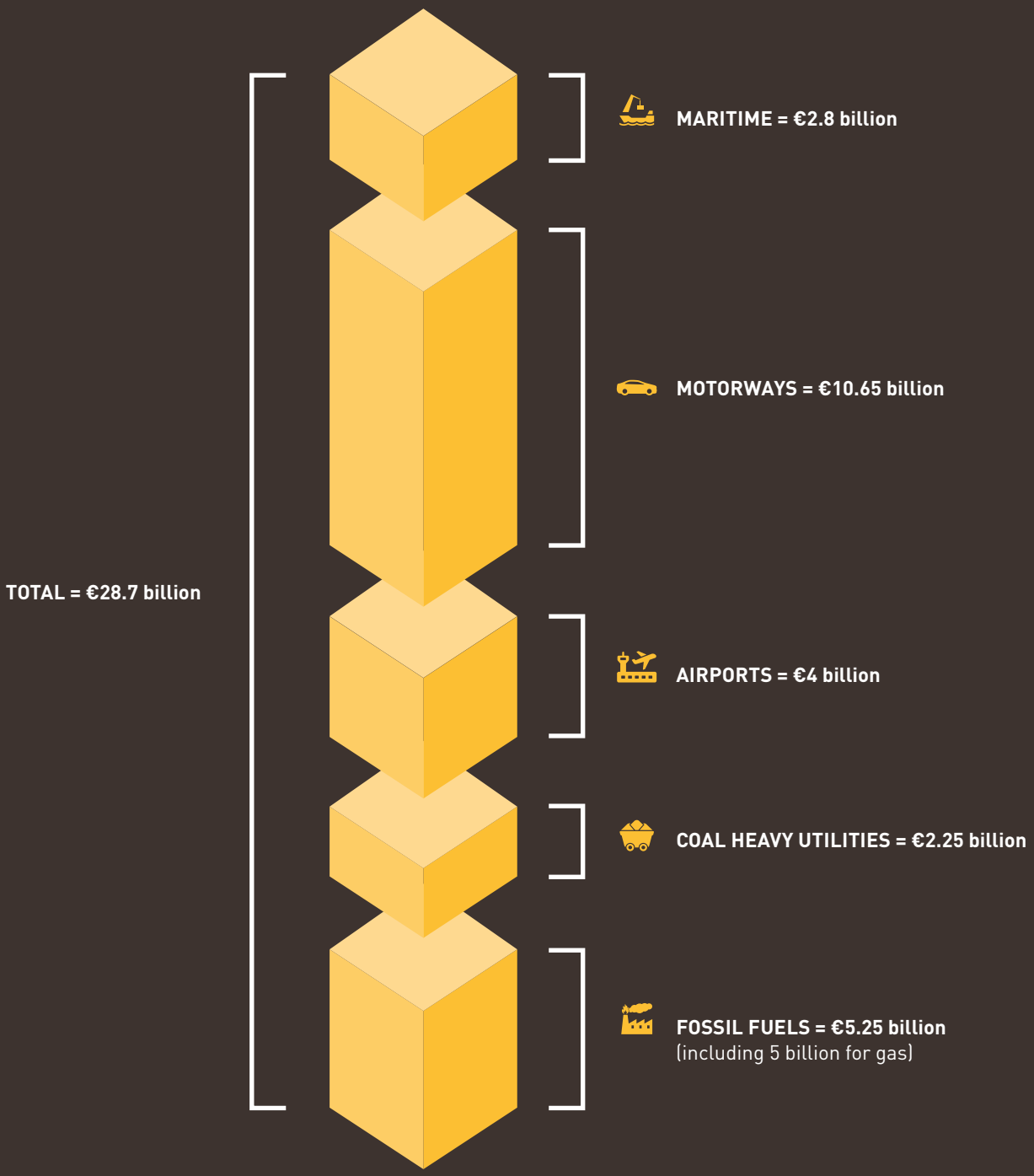
However, it is too soon to call the EIB a climate bank, or the "EU Climate Bank". This chapter focuses on the current weaknesses of the bank, looking at its ongoing support to environmentally and socially harmful projects – especially high-carbon and unsustainable projects in the transport and energy sectors – and the limits of what the EIB reports as its climate finance.

2 IPCC, Global Warming of 1.5°C, 2019 https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15_Full_Report_High_Res.pdf

3 United Nations Environment Programme, Emissions Gap Report, 2019

EIB NOT A CLIMATE BANK YET:
SMOKING OUT THE FILTH

From 2016 to 2019, the EIB provided €28.7 billion to dirty projects



Calculation on total of problematic projects 2016-2019 (4 years)



(PHOTO: BIGSTOCK/ MAXSAFANIUK)

/ THE EIB FOSSIL FUELS BAN: THE PROOF WILL BE IN THE PUDDING /

As far as energy is concerned, the **new EIB "Energy Lending Policy"**[4] adopted on 14 November 2019 is a key step forward.

Under the policy, **the bank commits to end its financing for fossil-fuel energy projects by the end of 2021.** Together with the **prioritization of energy efficiency and renewable energy investments**, the policy holds strong potential to contribute to a Just Transition for all in Europe.

The policy however contains **three important exceptions** that could undermine its objectives.

Firstly, it still allows the EIB to approve projects from the 4th list of the so-called '**Projects of Common Interest**' (PCIs) until the end of 2021. This list, which is heavily shaped by fossil gas lobbies, contains 32 new fossil gas projects – but many of those are projects bundled together, so in reality there are over 50 gas projects on the list. According to the EIB, as of September 2019, there were 9 loans for € 2 billion already approved but awaiting signature and disbursement, 18 additional projects under appraisal for a total of € 1.3 billion, and the EIB had also been approached for 18 other projects (worth € 2.6 billion) for which the Management Committee must authorize the start of the appraisal process[5]. Altogether this meant 45 gas projects at various stages of the EIB project cycle, amounting to € 5.9 billion in total potential EIB financing. It is unlikely that all these projects are ultimately financed, however it is emblematic of the threat such projects still pose.

Secondly, the EIB stated that it will *"support gas network projects that are planned to transport low-carbon gases, including the rehabilitation and adaptation of existing gas infrastructures when it is part of this goal"*. This is problematic because both the benefit for the climate and the economic potential of these low carbon gases are uncertain. There is also no accepted definition or set of criteria to identify what gas is considered low-carbon and what isn't. Considerable risks remain in the use of many of these gases, for instance from methane leakage and the high level of energy required in their production. This could allow **financing for new, highly-polluting fossil gas infrastructure, based on promises of operational carbon capture and storage (CCS) and low carbon fuels in the future** – promises that may never materialise.

Thirdly, the policy allows financing for power generation projects that emit fewer than 250 grams of CO2 per Kilowatt-hour (gCO2/kWh) over their economic lifetime. This threshold under the EIB's so-called Emissions Standard is high and has no scientific justification. Indeed, the EU sustainable finance taxonomy has established a more stringent threshold of 100 gCO2/kWh, a threshold that is already high for renewables as they tend to achieve numbers far lower than that. The 250 gCO2/kWh, averaged over the lifetime, is essentially an **open door to support conventional fossil gas plants** and plants accompanied by CCS under the promise of incorporating renewable or green gases in the future.

4 See: https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy

5 Internal EIB document circulated to its Board of Directors

WHILE THE NEW EIB ENERGY POLICY ADOPTED IN NOVEMBER 2019 IS A KEY STEP FORWARD, A FEW LOOPHOLES COULD UNDERMINE ITS OBJECTIVES

(PHOTO: BIGSTOCK/ EVGENIY IVANOV)



There is a genuine risk that the bank makes use of this transition period and these loopholes to continue funding gas projects within the next two years and beyond.

Since 2018, despite the discussions about its new energy policy, the EIB has continued supporting fossil gas projects. This is the case of the recently approved Mytilineos Sa-agios Nikolaos power plant in Greece. The project concerns the construction of a gas-fired combined cycle turbine. The emission standard of the plant is estimated at 321 gCO2/kWh, which the EIB justified as being below the threshold in force when the project entered the EIB's project cycle and appraisal process – so before the 250 gCO2/kWh threshold was approved under the new policy[6].

This gas power plant is not an isolated project in the EIB's portfolio: for example, in July 2018 the EIB signed a loan for a combined cycle power plant in Zagreb, Croatia[7]. And the justification for this loan, as advanced by the EIB, is merely environmental: "*the new units will be fuelled*

by low-emission gas, and generate electricity for the grid and heat for district heating in north-western Zagreb, replacing obsolete, mostly heat-only, gas and oil-fired units. It is a critical part of Zagreb's energy infrastructure and the investment will ensure implementation of a modern and environmentally friendly project satisfying the heating requirements of the city and all national and EU environmental standards". But according to the promoter – Croatia's state-owned power company Hrvatska Elektroprivreda – the new unit is only expected to reduce gas consumption by 25% compared to its older counterpart[8].

There are many fossil fuels projects currently under appraisal. These include for instance the construction of a Liquefied Natural Gas (LNG) import, regasification, storage and pipeline infrastructure in Cyprus[9] by a Chinese company, the construction of a gas interconnector between Serbia and Bulgaria[10], the installation of new gas compressor units and gas treatment facilities in Ukrainian gas fields[11], an underground gas storage in Georgia[12] and the establishment of oil reserves in Bosnia[13].

As far as pipelines are concerned, loans have actually been moved forward even after the adoption of the new EIB energy policy, such as a € 233 million loan signed in December 2019 for the construction of the Gustorzyn-Wronów pipeline in Central-Eastern Poland and the Polish section of the Poland-Slovakia interconnector[14]. Two months before, the EIB also signed a € 110 million loan for the construction of a gas pipeline between Bulgaria and Greece[15]. In total, in 2019 the EIB signed contracts worth € 774 million for gas projects.

This is particularly problematic as adding any new gas projects risks locking us into this damaging fossil fuel for decades to come. Given the long-term tenor of EIB loans – typically 15 to 20 years – the bank would keep such harmful projects on its balance sheet until 2040.

There is furthermore ample evidence that the EU gas infrastructure is more than sufficient to meet demand, even in the event of extreme supply disruption cases[16]. A recent analysis carried out on behalf of the European Climate Foundation found that most of the gas infrastructure projects on the PCI list are "*unnecessary from a security of supply point of view, and represent a potential overinvestment of tens of billions of euros*"[17], mostly coming from public funds.

Given the bank's commitment to align all its operations with the Paris Agreement by the end of 2020, the EIB will need to implement its new energy policy in a stringent manner and not make use of these loopholes to finance any more highly-polluting fossil fuel infrastructure before the ban enters into force.

Another important issue with the new policy is that it still enables **financing of nuclear energy**. Despite repeated attempts by the nuclear industry to present itself as a solution for climate change, it is not. Building new nuclear power plants requires strong financial, political and institutional commitments, which undermines support for renewables and energy efficiency. Public money should go into real sustainable solutions instead of locking countries into centralized and dangerous energy systems for decades to come. Therefore, it will be crucial to ensure that the EIB does not get more active in this field.

6 See: https://www.eib.org/en/registers/all/123775676

7 See: https://www.eib.org/en/projects/loans/all/20160822

8 See: https://www.khl.com/construction-europe/work-starts-on-120-million-zagreb-power-plant/141763.article

9 See: https://www.eib.org/en/projects/pipelines/all/20180481

10 See: https://www.eib.org/en/projects/pipelines/all/20170205

11 See: https://www.eib.org/en/projects/pipelines/all/20160745

12 See: https://www.eib.org/en/projects/pipelines/all/20160439

13 See: https://www.eib.org/en/projects/pipelines/all/20170865

14 See: https://www.eib.org/en/projects/pipelines/all/20190433

15 See: https://www.eib.org/en/press/all/2019-260-eib-supports-energy-supply-diversification-in-south-eastern-europe

16 E3G, Energy infrastructure for a European Green Deal, 2020 https://www.e3g.org/wp-content/uploads/31_3_20_TEN-E-Briefing.pdf

17 Artelys, An updated analysis on gas supply security in the EU energy transition, 2020 https://www.artelys.com/wp-content/uploads/2020/01/Artelys-GasSecurityOfSupply-UpdatedAnalysis.pdf





NUCLEAR ENERGY STILL REMAINS ELIGIBLE FOR SUPPORT UNDER THE NEW ENERGY LENDING POLICY
(PHOTO: BIGSTOCK/TOM FAWLS PHOTOGRAPHY)

Finally, the EIB should stop any indirect support to coal and other fossil fuels via loans to polluting corporations, in particular coal developers. **Despite having ruled out direct investment for coal in 2013, the bank has since then provided € 4.7 billion from 2013 to 2019 to companies with a high share of coal in their power and heat generation portfolios or which planned to develop new coal power capacity at the time of the loans' approvals**[18]. These include Energa, Tauron and PGE in Poland, Endesa in Spain, PPC in Greece and CEZ in the Czech Republic. Billions of euros intended to support Polish state companies, such as Energa and PGE, to expand electricity grids, have in practice freed up money for new coal power plants and other dirty investments[19].

With the danger of carbon lock-in and stranded assets, no public financial support should be given to companies planning new coal power capacity, including buying or retrofitting existing coal assets. As fossil fuels are becoming not only an environmental but also a 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.

Building a new coal asset, whose economical as well as technical operation lifetime is measured in decades, cannot be justified. **The EIB must apply stricter due diligence and make its financing conditional on concrete, timebound company-level decarbonisation plans aligned with the Paris Agreement.**

18 Bankwatch, The road less travelled: How the European Investment Bank's Climate Roadmap 2021-2025 can lead it to become the Climate Bank, May 2020 https://bankwatch.org/wp-content/uploads/2020/05/2020-04_EIB_Climate_Action_06_d.pdf

19 See: https://bankwatch.org/blog/european-public-banks-continue-financing-coal-bonanza

INVESTING IN A BLACK HOLE: THE SOUTHERN GAS CORRIDOR



The recent figures on EIB's support to fossil fuels, and in particular to gas infrastructure, got a considerable boost in early 2018, when the EIB decided to channel a € 1.5 billion loan to the Trans Adriatic Pipeline (TAP) – the western leg of the Southern Gas Corridor, passing through Greece and Albania and landing on southern Italian shores[20]. The EIB decided to turn a deaf ear to the corruption, human rights, and above all climate impact concerns brought up by civil society on the project. It hid behind political decisions by the Member States, the European Commission and the European External Action Service. The Southern Gas Corridor is projected to remain operational for 50-60 years[21]. This would mean supplying fossil fuels more than 50 years after the Paris Agreement on climate change was signed.

In February 2019, Counter Balance, together with NGOs CEE Bankwatch Network, Friends of the Earth Europe and Re:Common, lodged a complaint to the EIB about the poor climate impact assessment of these loans[22]. The complaint is still being dealt with by the EIB internal Complaints Mechanism.

MOVING TOWARDS A JUST TRANSITION

The **Energy Transition Package** as adopted under the EIB energy policy is a first step to do more to support regions and territories accelerate their Just Transition. The EIB however needs to develop further its contribution as part of the **future Just Transition Mechanism** as proposed by the European Commission in January 2020 – especially under its future Public Sector Loan Facility. This will be a litmus test for how the EIB can increase its contribution to a Just Transition for workers in those sectors that will see fundamental changes.

20 See: http://www.counter-balance.org/controversial-gas-pipeline-gets-eur-1-5-billion-in-public-money-amid-massive-climate-risk/

21 See: http://cbw.ge/gas/southern-gas-corridor-to-remain-active-for-50-60-years/

22 See: http://www.counter-balance.org/wp-content/uploads/2019/02/Southern-Gas-Corridor-Climate-Complaint-06.02.2019.pdf

The promises to align with the Paris Agreement and the planned ban on fossil fuels are not the end of the road for the EIB. There are many other challenges that the bank needs to tackle if it is to live up to its climate commitments. **An important step to come will be the review of its largely outdated Transport Policy[23] (dating back to 2011), which currently enables the financing of polluting and carbon-intensive transport modes and infrastructure projects such as airports and motorways.**

AIRPORTS: THE EIB FLYING IN THE FACE OF CLIMATE BREAKDOWN

Until recently, aviation has been one of the fastest-growing sources of greenhouse gases (GHG) emissions and the most climate-intensive mode of transport. Globally, aviation emissions have more than doubled in the last 20 years[24]. When including the non-CO2 climate effects of aircraft, such as NOx emissions, contrails and cirrus cloud formation, the aviation sector is responsible for an estimated 5 to 8% of anthropogenic global warming[25].

It is also the transport sector whose prospects for energy transition are the most difficult and uncertain. A recent study by the NGO Transport & Environment for instance demonstrates that expected technology and operations improvements will be insufficient to mitigate the fuel demand and emissions growth from aviation[26]. CORSIA, the Carbon Offsetting and Reduction Scheme for International Aviation, is insufficient to tackle aviation's climate harm, since it ignores non-CO2 effects, relies on questionable offsetting, involves risky biofuels and is mostly voluntary (see Chapter 2).

To meaningfully reduce GHG emissions of the aviation sector, there is no other way than reducing traffic. Any investment in aviation infrastructure is therefore in complete opposition to the objectives of the European Green Deal and the EIB commitments to align with the Paris Agreement.

Investments in airport expansions demonstrate the contradictions between the discourses of the EIB and its actual practices. While resistance towards airport expansion is growing worldwide, as illustrated by the recent victory against the third runway at Heathrow, the EIB is still continuing to support such highly polluting projects. **Since 2016, the bank has provided more than € 4 billion in loans for the expansion of airports.** Just in 2019, the EIB financed airport expansions in Greece, Finland, Germany, the Netherlands, Italy, Ireland and Denmark.

It is quite ironic that, in parallel, the EIB published a 'Climate Survey' in January 2020 showing that 36% of Europeans said they already flew less for holidays to help prevent climate change and 75% intended to do so in 2020, but the bank kept disbursing loans in support of the expansion of this industry[27].

THESE TWO TWEETS, POSTED AT JUST AN HOUR INTERVAL IN MARCH 2020, ILLUSTRATE THE CONTRADICTIONS BETWEEN THE EIB'S DISCOURSES AND ITS ACTUAL PRACTICES

European Investment Bank @EIB · Mar 12

🗣️EIB #ClimateSurvey finds big support for banning short-distance flights & penalising car use in city centres.
Our survey shows that Europeans are ready to support actions that fight #ClimateChange even if this impacts their daily lives bit.ly/3aA4hmy #EUGreenDeal

European Investment Bank @EIB · Mar 12

🇪🇺🇮🇪 Projects like #CorkCounty's #infrastructure upgrade, #Dublin airport's transformation or @RCSI_Irl medical campus development are great examples of the EIB Group activities #Ireland! Learn more about our 2019 record engagement in the country: bit.ly/2IFrGH9



23 See: https://www.eib.org/attachments/strategies/transport_lending_policy_en.pdf

24 Transport & Environment, Roadmap to decarbonising European aviation, 2018
https://www.transportenvironment.org/sites/te/files/publications/2018_10_Aviation_decarbonisation_paper_final.pdf

25 Lee, D.S et al., Aviation and global climate change in the 21st century, 2009
https://www.sciencedirect.com/science/article/pii/S1352231009003574
Umweltbundesamt, Schwerpunkt: Fliegen, 2019
https://www.umweltbundesamt.de/themen/uba-magazin-2-2019-schwerpunkt-fliegen

26 Peeters, P. et al., Are technology myths stalling aviation climate policy?, 2016
https://www.sciencedirect.com/science/article/pii/S1361920916000158

27 See: https://www.eib.org/en/surveys/citizens-climate-change-survey.htm
https://www.euractiv.com/section/aviation/news/flight-shame-takes-hold-in-europe-china-us-says-new-study/

Projects currently under appraisal include the **expansion of Terminal 2 of the airport in Nice**, France. This plan is heavily opposed by civil society. The project is expected to increase the traffic of passengers by 50%, from 14.5 million in 2019 to 21.6 million in 2030. This would lead to an estimated rise in the amount of commercial flights surpassing more than 20,000 per year. In February 2020, 13 NGOs sent a letter to the EIB outlining reasons why it should not be funding this project[28]. A collective of citizens and association also made an appeal to the Administrative Court in Nice to halt the expansion.



IN FEBRUARY 2020, 13 NGOS SENT A LETTER TO THE EUROPEAN INVESTMENT BANK (EIB) ASKING THEM NOT TO SUPPORT THE EXPANSION OF THE AIRPORT IN NICE *(PHOTO: BIGSTOCK/ANTIVAN)*

28 See: https://www.counter-balance.org/letter-eib-nice-airport/

WHY FINANCE THE MOST CLIMATE-DAMAGING PROJECT OF DENMARK?

The EIB recently signed a loan of € 170 million for the expansion of Copenhagen (CPH) Airport to help *"cater for future growth in air traffic"*[29]. The airport currently handles 30 million passengers annually. The expansion project, which encompasses a 80,000 m2 increase of the terminal area, is expected to make room for 40 million annual passengers, allowing for future growth to 60 million. The first phase of construction is expected to be completed in 2023 and the second around 2028-2029.

Bevar Jordforbindelsen (Preserve the Earth Connection), Friends of the Earth Denmark, the Danish 350 Climate Movement, the Green Student Movement, Grandparent Climate Action and several other local organizations joined forces to stop the CPH expansion[30]. They claim that the expansion, which is one of the single most climate-damaging projects currently planned in Denmark, is incompatible with the country's climate commitments. The expansion alone would amount to 10% of the national climate impact in 2030 when Denmark's 70% climate reduction target is to be met. International aviation is not included in the national climate target.



PROTESTS AGAINST THE EXPANSION OF CPH AIRPORT
(PHOTO: BEVAR JORDFORBINDELSEN)

A CASE IN POINT: THE EXPANSION OF THE BUDAPEST AIRPORT[31]

The development plans for the airport in Budapest assume an increase from the current 15 million passengers per year to 21 million in 2030. The construction of a new Terminal 3 is planned, which will be accompanied by the expansion of the existing Terminal 2 and the reconstruction of the runway. Although the airport is located close to settlements, its expansion has not been accompanied by any Environmental Impact Assessment. The affected municipalities and individuals have unsuccessfully attempted legal action to force the competent authorities to take into account the negative environmental and social impacts they are facing such as air pollution, noise, damaged houses, depreciation of properties and increased passengers' traffic to and from the airport[32]. Meanwhile, investments have started and a section of the new passenger pier at Terminal 2 has already been built and has since opened to the public in early 2020. The impacted people's local action group, together with Friends of the Earth Hungary, filed an official complaint[33] to the EIB in March 2020 calling on the bank to withdraw financing until an environmental and social impact assessment is conducted – and includes real public consultations – and the environmental and social impacts are addressed satisfactorily.

29 See: https://www.eib.org/en/projects/pipelines/all/20180156
30 See: http://bevarjordforbindelsen.dk/den-danske-stat-skal-stoppe-det-lovforberedende-arbejde-for-at-faa-udvidet-kastrup-lufthavn/
31 See: https://www.eib.org/en/press/all/2018-345-investment-plan-for-europe-eib-supports-further-expansion-of-budapest-liszt-ferenc-international-airport
32 See: https://dailynewshungary.com/will-budapest-airport-be-moved-from-ferihegy/
33 See: https://mtvsz.hu/dynamic/bankfigyelo/eib_bud_airport_project_problems_2020letter_complaint.pdf

The bulk of EIB's support to the aviation sector is linked to investments in airport infrastructure, but the EIB still supports airlines companies, for instance in 2017 through a € 95 million loan to the Dutch company KLM for the renewal of its regional fleet[34], or a € 250 million loan in Italy for the management of air traffic[35].

SUPPORT TO MOTORWAYS AND HIGHWAYS: ROADS TO NOWHERE?

Over the period 2016 to 2019, the EIB has massively supported roads, highways and motorways with € 10.65 billion over these four years.

Previous research by Counter Balance showed that under the Investment Plan for Europe – the flagship initiative of the previous European Commission led by Jean-Claude Juncker – the EIB financed numerous motorways via Public Private Partnerships (PPPs) despite the additionality of such projects and their climate credits being more than questionable. For instance, we identified 4 motorways in Germany (A3, A6, A10 and A24) and 3 motorways in the Netherlands (A679, A980 and A16) financed by the European Fund for Strategic Investments (EFSI) under PPP schemes by the end of 2018 – It is difficult to argue that Germany and Netherlands, two of the most wealthy EU Member States, needed such financial support from the EFSI.

Several civil society organizations called on the EIB to end its support for motorways and highways. Some of the arguments put forward are that such investments do not contribute to local mobility and compete with less carbon-intensive transport modes such as trains. Road transportation is also a major contributor of CO2 emissions. In 2017, road transport was responsible for almost 72% of the total GHG emissions from transport at the EU level[36]. Furthermore, the EU already has an extremely dense network of motorways and highways, many of which create severe problems of ecosystem fragmentation and even disruptions in environmentally protected areas – the Natura 2000 areas.

34 See: https://www.eib.org/en/projects/loans/all/20160704

35 See: https://www.eib.org/en/projects/loans/all/20140087

36 European Environmental Agency, Greenhouse gas emissions from transport in Europe, 2019 https://www.eea.europa.eu/data-and-maps/indicators/transport-emissions-of-greenhouse-gases/transport-emissions-of-greenhouse-gases-12

CUTTING INTO NATURA 2000 IN POLAND

In 2013, the EIB awarded € 788 million for the construction of 185 km of Poland's S7 expressway[37]. A section of the road, between the town of Skarżysko-Kamienna and the Swiętokrzyskie–Mazowieckie region border, clearly violates European law and environmental standards. The junction, which is now under construction, will be cutting through a major ecological corridor, impacting the neighbouring Natura 2000 areas and causing the destruction of the habitats of several butterfly species[38].

The primary function of this controversial project is to connect to an industrial zone which the local authorities plan to construct nearby, which would itself be located on protected Natura 2000 grounds.

CEE Bankwatch Network and the local NGO Pracownia na rzecz Wszystkich Istot (Workshop for All Beings) lodged complaints to the EIB Complaints Mechanism and the European Commission to stop the construction of the road as it is currently planned. Both were however slow to respond. Meanwhile, the project promoter, the Polish National Road Construction Agency (GDDKIA) refused to redesign the road, insisting on executing its environmentally damaging plan[39].

Ultimately, GDDKIA decided to self-fund the construction of the "Skarżysko-Północ" junction and abandon support from the EIB and the EU. This allowed the promoter to evade scrutiny of EU institutions and move forward with the project. Self-funding the rest of the project was not too difficult since the controversial section involves only eight kilometres and GDDKIA had already received EIB funding for the other sections of the road.

Works are currently underway, with bulldozers annihilating one of Poland's best-preserved habitats and a unique wetland ecosystem. The construction works already destroyed a protected population of the endangered Marsh Fritillary butterfly.

While everything might look in order on paper since EIB funds were ultimately not used to build the problematic "Skarżysko-Północ" junction, this does not change the fact that **the S7 motorway, in its entirety, is responsible for destroying important ecosystems and pushing an endangered species closer to extinction.**



THE ENDANGERED MARSH FRITILLARY USED TO LIVE IN THE REGION CROSSED BY THE S7 EXPRESSWAY
(PHOTO: BIGSTOCK/ RAULL HB)



THE BUTTERFLIES' HABITAT IS NOW A BULLDOZED MEADOW
(PHOTO: BANKWATCH)

37 See: https://www.eib.org/en/projects/pipelines/all/20120672

38 Bankwatch, S-7 A road to nowhere, 2014 https://bankwatch.org/wp-content/uploads/2014/12/briefing-s7-15Sep2014.pdf

39 See: https://bankwatch.org/eu-budget-case

A recent controversial project funded by the EIB is the Strasbourg bypass (Grand Contournement Ouest de Strasbourg–A355), a 24 kilometre motorway by-passing the city of Strasbourg, France. Despite being contested for 20 years by elected officials, farmers, citizens and civil society organizations, the project nevertheless went through and is currently under construction. This was largely enabled by a € 229 million loan from the EIB signed in April 2018[40].

The EIB claims that the construction of the bypass would help to significantly reduce the level of congestion on the existing motorway north of Strasbourg, thereby contributing to faster travel times for road users and a decrease in pollution.

In practice, however, this solution is unlikely to be efficient, with highly detrimental consequences for biodiversity, public health and the climate. Local groups have pointed out that the bypass will not provide an effective response to the congestion problem. The current traffic problem is mainly caused by vehicles that enter and leave Strasbourg. The motorway will not be of any use for these people since the project by definition bypasses the city. The objective of the project is rather to have the road primarily used by trucks. However, according to a study conducted by the CGEDD (Conseil général de l'environnement et du développement durable), this would only have a very limited impact on traffic reduction, with an estimated decrease of only 6 to 14%[41].

While the benefits of this project are questionable, its harmful impacts on the environment and biodiversity are likely to be important. These impacts have been criticised by local opponents and many public studies, including the Environmental Authority, the Agency for Biodiversity, the local water commission and the National Council for the Protection of Nature[42]. The construction of the highway will come at the expense of 300 hectares of agricultural land. It will also strongly disturb or destroy unique ecosystems, including forests and wetlands, that are home to 450 plant and 120 animal species. It furthermore risks causing the disappearance of many protected species, such as the Great Hamster of Alsace, classified among the most threatened mammals in France. The environmental offsets proposed to mitigate the loss of agricultural land and biodiversity have been described as inadequate by the public inquiry commission responsible for studying the case[43].

Opponents also dispute the argument concerning the fight against air pollution, arguing that it will only be displaced in the municipalities bordering the new highway. The project is likely to increase air and noise pollution for these communities, without decreasing it on the existing A35 highway. The decision authorizing the project was taken on the basis of an old impact study from 2006. Even if a recent update was done, the anticipated impact on air pollution and climate impact is still based on outdated figures.

Who then benefits from this project? As it appears, its main purpose is not to relieve congestion in Strasbourg, but rather to facilitate the movement of goods between northern Europe and the south. The lengthy concession for the project also means that the profits generated will end up in the pockets of the multinational French company Vinci for a period of 55 years, for a project with dubious added-value for the region it will cross as well as its citizens.

The Strasbourg bypass is a sad illustration of the lack of accountability in public participation: the project was rejected by several public authorities and two public inquiry commissions studying the case. **This project is an archetype of what we must no longer do in terms of transport.** It is part of a long and never-ending list of imposed projects that do not serve the general interest, increase the nuisance for local communities and always destroy more of our natural and common resources.



THE STRASBOURG HIGHWAY IS PUTTING THE HAMSTERS OF ALSACE AT RISK OF EXTINCTION, DESPITE IT BEING LISTED AS A PROTECTED SPECIES UNDER THE EU HABITATS DIRECTIVE

(PHOTO: BIGSTOCK/ COBOFLUPI)

40 See: https://www.eib.org/en/projects/pipelines/all/20150234

41 CGEDD, Expertise sur les déplacements dans la périphérie de l'agglomération strasbourgeoise, 2013 https://cgedd.documentation.developpement-durable.gouv.fr/documents/Affaires-0007667/008695-01_rapport_version-publique.pdf

42 See: https://www.monde-diplomatique.fr/2019/03/PARASOTE/59645 https://app.box.com/s/08ghg2bczcesk2jg680qfrz389vk4f6m

43 CGEDD, Avis délibéré de l'Autorité environnementale sur le contournement ouest de Strasbourg, 2017 http://www.cgedd.developpement-durable.gouv.fr/IMG/pdf/180221_-_contournement_ouest_de_strasbourg_67_-_delibere_cle1a1d91.pdf

44 International Maritime Organisation, Third GHG Study, 2014 http://www.imo.org/en/OurWork/Environment/PollutionPrevention/AirPollution/Pages/Greenhouse-Gas-Studies-2014.aspx

BANKING ON HIGH-CARBON MARITIME INDUSTRY

The maritime industry is often omitted as a polluting transport sector, even though global shipping accounts for more than 2% of global GHG emissions[44]. Emissions from shipping have grown by around 70% since 1990 and are expected to continue to increase between 50% and 250% between 2020 and 2050. This means that on a business-as-usual pathway, shipping emissions could account for about 18% of worldwide GHG emissions by 2050[45].

Shipping also emits many pollutants that are responsible for a range of health and environmental issues[46]. Ship engines, which predominantly burn heavy fuel oil, contribute to emissions of sulphur dioxides, nitrogen oxides and particulate matter, which can have severe harmful impacts on human health and ecosystems. The Danish Centre for Energy, Environment and Health found that European ship emissions were responsible for around 50,000 premature deaths every year[47].

Like aviation, shipping is considered to be one of the sectors in which decarbonisation is the hardest to achieve, mostly due to the high cost of and lack of availability of low-carbon technologies, but also to the fragmented structure of the industry as well as the difficulty to control the enforcement of environmental measures[48].

The EIB has spent almost € 3 billion (€ 2.828 billion) in maritime investment from 2016 to 2019. Several of its investments, such as the Green Shipping Guarantee[49] programme, have centred toward "greening" the maritime transport sector through investing in new energy-efficient vessels[50], hull treatment and ballast water treatment systems and alternative fuels such as LNG[51].

Very recently, in February 2020, the EIB signed a € 41 million loan with the municipality of Ystad[52] (Sweden) to expand harbour facilities so that new, larger LNG vessels can access the harbour. The new EIB Vice President Thomas Östros gave the following statement: *"as the climate bank of the EU, the EIB wants to provide finance to projects that seek to reduce the environmental impact of their operations, while keeping business going and stimulating sustainable growth and job creation. This project is spot on in all of those senses*[53]*."*

Some of the environmental claims for these investments can however be disputed, especially with regard to LNG fuels. A report from Transport & Environment[54] described LNG as an expensive diversion that will make it more difficult for the shipping industry to align with the Paris Agreement goals. Rolling out LNG uptake would cost Europe more than € 22 billion, with – at best – a 6% to 10% reduction of GHG emissions compared to diesel fuel, and only when considered in an optimistic methane leakage scenario.

This level of potential GHG emissions savings is also likely to be cancelled out by the expected growth of maritime trade. What is brought into question is whether an increase in global trade and cruise ship tourism can be consistent with the objectives of the Paris Agreement, both of which are often the main rationale behind the EIB's maritime investments. **The EIB for instance invested more than € 1.7 billion in port expansions since 2016 to accommodate for a future increase of shipping traffic.**

These loans are often prominently tied to the EU transport corridor agenda (see the section in Chapter 2 on infrastructure mega-corridors). Several recent investments are intended to link into China's Belt and Road Initiative (BRI) or similar routes eastwards. The bank for example recently loaned € 140 million to support the expansion of the Port of Piraeus[55], Greece's largest port now owned in large parts by the Chinese COSCO Corporation. Established as a Special Economic Zone, the Port of Piraeus operates as an international cruise centre and commercial hub. It is now the main platform in Europe for China's maritime ambitions as part of the BRI.

The expansion of the Port of Piraeus financed by the EIB is likely to drive a massive increase in imports for Chinese goods into Europe, raising concerns on the environmental and climate impact of this investment. Another dark side concerns the precarious and exploitative labour conditions at the Port of Piraeus revealed by several media reports and studies[56].

Some of the recent loans to port expansions, such as the ports of Brest and Marseille (Fos-sur-Mer) in France, Di Civitavecchia in Italy and several ports in Portugal, are even counted as part of the bank's "Climate Action"[57]. **It is however difficult to see how a massive increase of shipping traffic and transport of international goods that such investment is fuelling can be compatible with the EIB climate goals and a 1.5°C warming trajectory, especially when taking into account the difficulty in decarbonizing the maritime sector.**

45 Öko-Institut, Emission Reduction Targets for International Aviation and Shipping, 2015 https://www.europarl.europa.eu/RegData/etudes/STUD/2015/569964/IPOL_STU(2015)569964_EN.pdf

46 Transport & Environment, Roadmap to decarbonising European Shipping, 2018 https://www.transportenvironment.org/sites/te/files/publications/2018_11_Roadmap_decarbonising_European_shipping.pdf

47 Brandt, J. et al., Assessment of health-cost externalities of air pollution at the national level using the EVA model system, 2011 https://www.osti.gov/etdeweb/biblio/1037823

48 Transition Pathway Initiative, State of Transition Report, 2020 https://www.transitionpathwayinitiative.org/tpi/publications/50.pdf?type=Publication
Transport & Environment, Roadmap to decarbonising European Shipping, 2018 https://www.transportenvironment.org/sites/te/files/publications/2018_11_Roadmap_decarbonising_European_shipping.pdf

49 See: https://www.eib.org/en/projects/pipelines/all/20150334

50 See: https://www.eib.org/en/press/all/2019-005-first-green-support-for-european-shipping-operator-signed-with-abn-amro
https://www.eib.org/en/projects/pipelines/all/20180024
https://www.eib.org/en/projects/pipelines/all/20170070

51 See: https://www.eib.org/en/projects/pipelines/all/20190313

52 See: https://www.eib.org/en/projects/loans/all/20180533

53 See: https://www.eib.org/en/press/all/2020-058-eib-supports-refurbishment-of-port-of-ystad-to-accommodate-climate-friendly-vessels

54 Transport & Environment, LNG as a marine fuel in the EU, 2018 https://www.transportenvironment.org/sites/te/files/2018_06_LNG_marine_fuel_EU_UMAS_study.pdf

55 See: https://www.eib.org/en/projects/pipelines/all/20170773

56 See for instance: Saaedy, A., How Greece's Busiest Port Reveals the Perils of Privatization, The Nation, 2018 https://www.thenation.com/article/archive/how-greeces-busiest-port-reveals-the-perils-of-privatization/
http://cargonauts.net/about/
Neilson, B., Precarious in Piraeus: on the making of labour insecurity in a port concession, 2019 https://www.tandfonline.com/doi/abs/10.1080/14747731.2018.1463755?scrol-l=top&needAccess=true&journalCode=rglo20
Counter Balance, Corridors as Factories, 2020 http://www.counter-balance.org/wp-content/uploads/2020/02/Logistics_Report_2020_On-line_Final.pdf

57 See: https://www.eib.org/attachments/registers/92782519.pdf

FOS-SUR-MER: FRANCE'S HIDDEN POLLUTION HAVEN

Fos-sur-Mer is one of the largest industrial zones in Europe, connected to the urban area of Marseille in the South of France. According to a study published in 2019[58], people living closest to the port are more likely to suffer from health problems, notably cumulative cancers and asthma. NOx and nanoparticles' emissions from boats, notably cruise and cargo ships, are partly to blame.

The EIB's recent loan of € 50 million to the Port of Marseille-Fos, which is counted at 74% under its "Climate Action", will include the expansion and construction of new quays to make way for *"big cruise ships"* and accommodate multiple *"large container vessels simultaneously"*[58]. Despite claims from the Port that measures will be taken to deal with air pollution, many questions and concerns about its environmental impact on local residents remain unanswered.



THE POLLUTION IN FOS-SUR-MER IS HAVING DANGEROUS HEALTH IMPACT ON THE LOCAL POPULATION
(PHOTO: BIGSTOCK/GILLESPAIRE)

58 Étude Participative en Santé Environnement Ancrée Localement (2017) https://f.hypotheses.org/wp-content/blogs.dir/3282/files/2019/06/Rapport-citoyen-volet-21.pdf
59 See: https://www.eib.org/en/press/all/2018-129-la-bei-soutient-le-developpement-du-grand-port-maritime-de-marseille

/ "CLIMATE ACTION" AT THE EIB: A MIXED BAG NOT IMMUNE TO GREENWASHING /

The EIB climate investments have progressively increased since 2014, reaching 31% of the bank's total signatures in 2019. Between 2016 and 2019, these loans totalled € 64 billion globally, representing 28,7% of its entire portfolio.

The category of "Climate Action" includes several straightforward types of climate-friendly investments like renewable energy and energy efficiency in buildings.

Unfortunately, the EIB "Climate Action" too often finances unsustainable projects. The category includes the modernization of heavy industry such as steel processing or refineries[60], more efficiency in the automotive sector[61], motorway tolling systems[62] and the construction of car parks[63]. It also even covers several fossil fuel projects like natural gas heat and power cogeneration plants. This casts doubts on the genuine sustainability and the relevance of eligibility criteria for what is currently labelled "Climate Action".

Other problematic investments counted as "Climate Action" include the development of the fifth generation of mobile telecommunications systems[64] (5G). These include two € 500 million loans to the multinational telecommunications companies Ericsson and Nokia. It is unclear whether such technologies will have substantial climate benefits or not, as they can potentially enable low-carbon options but are also generating a huge number of new uses and new services which themselves increase energy consumption and carbon emissions. The energy consumption from IT-enabled activities is skyrocketing globally[65]. A much more thorough assessment is therefore required in general for the IT sector to assess if it is climate-friendly and under which conditions. Continuing to promote such superfluous and energy-consuming technologies is questionable at a time when our efforts should be concentrated on a just ecological transition for all.

Despite deploying considerable finance, the EIB "Climate Action" needs to be revised and adjusted to ensure that public money supports projects that are truly transformative and sustainable, and that it reaches out where climate finance is especially needed. **The core issue remains what will be considered as climate-friendly activities, and how to ensure that these investments truly steer Europe towards a fair and just transition.** The pressure on the EIB to do more climate finance should not lead the bank to focus more on the volume of investments than on its quality.

Climate investments can only be sustainable if they bring together social, environmental and climate benefits. Loans should not be counted as "Climate Action" if they do not contribute to equity, environmental and biodiversity protection and the promotion of human rights. Several of the EIB climate investments have had highly detrimental consequences on the environment and the rights of local communities. Chapter 2 will further explore some of these social impacts and the greenwashing risks of so-called climate or sustainable investments.

60 See: https://www.eib.org/en/projects/pipelines/all/20170184

61 See: https://www.eib.org/en/projects/pipelines/all/20160027

62 See: https://www.eib.org/en/projects/pipelines/all/20160945

63 See: https://www.eib.org/en/projects/loans/all/20160681

64 See: https://www.eib.org/en/projects/pipelines/all/20170792 https://www.eib.org/en/projects/pipelines/all/20180099

65 See for instance: Harris, J., Our phones and gadgets are now endangering the planet, 2018 https://www.theguardian.com/commentisfree/2018/jul/17/internet-climate-carbon-footprint-data-centres Hughes, B., The Bleeding Edge: why technology turns toxic in an unequal world, 2016

MAINSTREAMING CLIMATE CHANGE CONSIDERATIONS IN SECTORS WHERE THE EIB OPERATES

Energy and transport are not the only sectors that should be covered by the EIB Climate Roadmap. The bank must establish and review sectoral policies to mainstream climate consideration for all its activities, including carbon-intensive industrial sectors (such as cement, aluminium and steel), waste management, water, agriculture, forestry and tourism.

In the waste management sector, the EIB should exclude financing waste incineration and co-incineration projects that counter the transition to a more circular economy. Waste-to-energy incineration is sometimes being proposed as a way to decarbonise waste management and the energy sector, ignoring the fact that incinerators are a substantial contributor to CO2 emissions. Investments for waste incineration plants are for instance still falling under the EIB "Climate Action". For example, the EIB recently approved loans for the construction and operation of waste-to-energy plants in Paris[66], Cardiff[67] and Hamburg[68].

This continued promotion of waste incineration is delaying the urgent transition to less carbon-intensive energy infrastructure, such as wind and solar renewable energy, while also undermining the move to lower-carbon options for waste management, including the re-design of products to increase their recyclability and longevity[69].



WASTE-TO-ENERGY INCINERATION IS INCLUDED WITHIN THE EIB "CLIMATE ACTION" DESPITE IT BEING A SUBSTANTIAL CONTRIBUTOR TO CO2 EMISSIONS

(PHOTO: BIGSTOCK/RONEDYA)

66 See: https://www.eib.org/en/projects/pipelines/all/20140113

67 See https://www.eib.org/en/projects/pipelines/all/20130049

68 See: https://www.eib.org/en/projects/pipelines/all/20180405
Only one component of this project is a medium sized waste to energy plant for residual waste, and is one component of a large municipal waste management scheme whose main purpose is to significantly increase recycling and composting.

69 See: https://zerowasteeurope.eu/2020/03/understanding-the-carbon-impacts-of-waste-to-energy/

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THE EIB AND FINANCIAL INTERMEDIARIES: A CLIMATE BLACK BOX

A weak area for the EIB "Climate Action" relates to its intermediated operations which are primarily aimed at supporting growth, jobs and innovation but do not have a core climate focus.

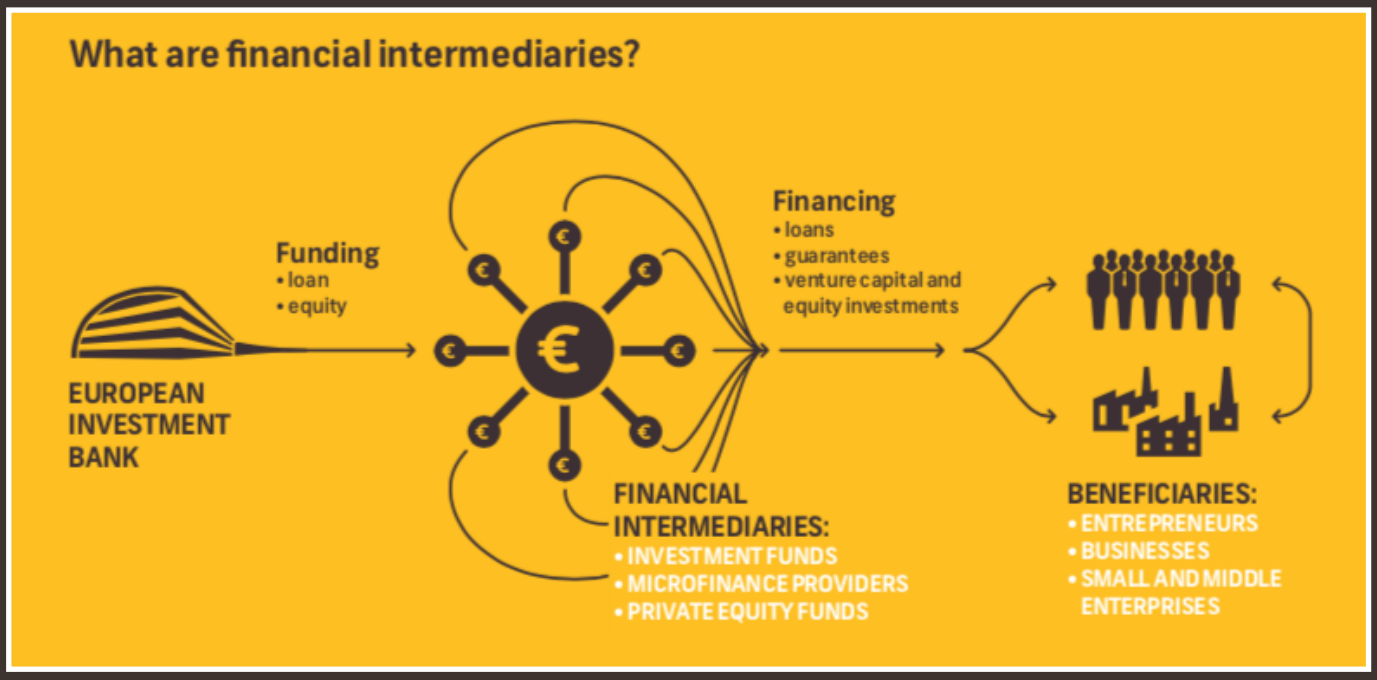
Indeed, as an integral part of its business model, the EIB uses an increasing number of intermediated operations: this means that the bank does not lend directly to a project, but instead uses so-called "financial intermediaries". This type of lending at the EIB has doubled in 20 years, accounting currently for approximately 1/3 of the bank's total operations. In 2019, € 25.5 billion was loaned to European Small and Medium Enterprises (SMEs) and midcaps via intermediated operations. The use of financial intermediaries will furthermore be at the heart of the bank's action to support SMEs and the economic fabric of Member States as part of the economic recovery package following the COVID-19 crisis.

In addition, the EIB Group also owns the European Investment Fund (EIF) which specialises in the provision of financial instruments such as venture capital and equity in investment funds. In 2019, the EIF signed operations worth € 10.23 billion.

There are two main ways for these intermediated operations to take place:

1. The EIB disburses large loans to private banks for these institutions to pass on (or "on-lend") in smaller loan tranches to final beneficiaries which are mainly SMEs.

2. The EIB also conducts investment operations via investment and private equity funds, a further shift away from traditional project finance to investments via entities that prioritise profit maximisation over concerns about sustainable development.



A major question is: what's in it for the climate?

Back in 2015, the EIB Climate Strategy included an action plan for the EIB to develop a methodology to measure the climate impacts of its intermediated operations. But not much has happened on that front to date. Therefore, the current situation is that at least a third of the EIB Group operations are not properly assessed and cannot be considered as climate-proof.

This is a major challenge for the bank. If the EIB and the EIF were to really target these intermediated operations for their contribution to the fight against climate change, they would need to adopt sound methodologies and exert much more control on the use of these funds by final beneficiaries and commercial banks. This would require more staff to advise, monitor and report on the climate impact of these operations. The new EIB energy policy stipulates that all its intermediated operations should apply the policy – and therefore be fossil free by end 2021 – but it remains particularly unclear how this would be applied in practice.

Searching through the NGO ranking of the "Banking on climate change: fossil fuel finance report 2020"[70], we found out that 12 out of the 35 banks examined in the report have been receiving credit lines from the EIB since 2016[71]. This is for example the case of HSBC, BNP Paribas, Deutsche Bank, Santander, Intesa Sanpaolo and ING. Altogether, these banks provided around € 450 billion to fossil fuels between 2016 and 2019[72].

A more generic concern flagged by civil society over the last decade relates to **the lack of transparency** of these operations, as the EIB provides next to no information on where the intermediated money ends up. This is compounded by the bank's rigorous protection of its clients' commercial confidentiality, as well as the clients' interest in turn to protect the confidentiality of the ultimate beneficiaries of loans or equity. In this context of widespread business secrecy, in a large majority of cases, the EIB appears reluctant to encourage intermediaries to disclose at least some details regarding the support they provide to third parties. Still, recent developments in regard to disclosure of information on small hydropower projects in the Balkans demonstrate that the EIB is able to disclose more information on the final beneficiaries of its projects, and this approach should be expanded to other high-risk projects.

As it stands, the rather inflexible stance of the EIB ignores the overwhelming public interest vis-a-vis commercial confidentiality in knowing how European public money is ultimately being deployed. Furthermore, the EIB does not shed any light on whether the investment funds it supports have any proven capacity and ability to manage – in line with EU standards – the environmental and social impacts and risks arising from its operations. Information on final projects financed through the intermediaries is unknown, even at an aggregated level.

70 Rainforest Action Network, Banking on Climate Change, 2020 https://www.ran.org/bankingonclimatechange2020/

71 See for instance:

Credit line to Santander https://www.eib.org/en/projects/pipelines/all/20190268
Credit line to BPCE https://www.eib.org/en/projects/pipelines/all/20180115
Credit line to BBVA https://www.eib.org/en/projects/pipelines/all/20160440
Credit line to UniCredit https://www.eib.org/en/projects/pipelines/all/20170228
Credit line to Intesa Sanpaolo https://www.eib.org/en/projects/pipelines/all/20170246
Credit line to HSBC https://www.eib.org/en/projects/loans/all/20170645
Credit line to Deutsche Bank https://www.eib.org/en/projects/pipelines/all/20190243
Credit line to ING https://www.eib.org/en/projects/loans/all/20150331
Credit line to Credit Agricole https://www.eib.org/en/projects/pipelines/all/20190035
Credit line to BNPP https://www.eib.org/en/projects/pipelines/all/20180761
Credit line to Commerzbank https://www.eib.org/en/projects/pipelines/all/20190387
Credit line to Société Générale (Scandinavian branch) https://www.eib.org/en/projects/pipelines/all/20170874
Given the lack of transparency on the final beneficiaries of EIB credit lines, it is unclear if the EIB credit lines were directly used to support fossil fuels. But even if this is not the case, the EIB support is anyway benefiting banks that do contribute to fuelling climate change by providing them with additional liquidity.

72 Rainforest Action Network, Banking on Climate Change, 2020 https://www.ran.org/bankingonclimatechange2020/

CHAPTER 2

The way forward: many greenwashing traps to avoid

In this chapter, we explore key areas on which the bank needs to pay serious attention in order to avoid supporting greenwashing practices. The type of operations covered in this chapter – from "green gas" to "green aviation" – are all supported by the EIB and the bank is considering enhancing its backing to them. But for the transformation of the EIB into the "EU Climate Bank" to truly take place, such areas need to be excluded from its eligible activities.

1 "GREEN" AND "LOW-CARBON" GAS: THE RISK OF FINANCING FOSSIL FUELS THROUGH THE BACK DOOR

Natural gas, the name used by the industry for fossil gas, has been marketed for decades now as a "bridge" fuel to cleaner energy. A recent report by the US NGO Oil Change International points out that oil and gas companies have been able to maintain this myth as a cover for expanding gas supply and consumption and delay the transition away from fossil fuels[73]. As flagged in Chapter 1, **there is a risk for the EIB to continue investing in gas infrastructure and locking our future in a fossil fuels era under the disguise of a climate solution.**

It is clearer than ever that gas is not a solution to but rather a cause of the climate crisis and that switching from coal to gas is no longer an option. The EU climate objectives require the energy sector to be decarbonized by 2050, and current plans for new gas infrastructure will drive us far beyond safe climate limits. Power plants and other infrastructures such as pipelines and LNG terminals are multibillion-dollar investments that require several decades of operation to be profitable and have lifetimes of up to half a century. This means that gas plants and pipelines built over the next few years could still be operating beyond 2050, when emissions from the power sector will need to be close to zero.

The gas industry has tried to create a new market for gas by claiming that it can decarbonize the energy and transport sectors, often in the form of compressed or liquified natural gas (CNG/LNG). Hence, the EIB continues to loan millions for LNG projects despite the fact that it has no meaningful climate and air quality benefits compared to conventional vehicles and ships[74].

Gas companies have recently found a new way to paint their industry green, promoting so-called "renewable gas" as the solution going forward. The EIB is already planning to spend hundreds of millions for biogas facilities[75]. In December 2019 the EIB also signed an agreement with the Hydrogen Council, a global initiative of CEOs representing energy, transport, and industry organisations advocating for the accelerated deployment of hydrogen solutions, to "collaborate on the development of innovative schemes to finance hydrogen projects to address climate change"[76]. Under the agreement, the EIB will play an advisory role to help companies structure hydrogen projects. It is worth noting the type of hydrogen that will be supported is not specified. Therefore, there is a risk that the scheme will be used to finance "blue" hydrogen produced from fossil gas.

Furthermore, the gas industry is massively overstating the climate credentials of renewable gas and the volumes of such gas that can realistically be produced by 2050. A report by the NGO Corporate Europe Observatory warns that the new hype for renewable gas is a dangerous distraction that will increase our reliance on all kinds of gas, including fossil gas[77].

73 Oil Change International, Burning the gas 'bridge fuel' myth, 2019 http://priceofoil.org/content/uploads/2019/05/gasBridgeMyth_web-FINAL.pdf

74 Transport & Environment, CNG and LNG for vehicles and ships, 2018 https://www.transportenvironment.org/sites/te/files/publications/2018_10_TE_CNG_and_LNG_for_vehicles_and_ships_the_facts_EN.pdf

75 See: https://www.eib.org/en/projects/pipelines/all/20190298
https://www.eib.org/en/projects/loans/all/20170136
https://www.eib.org/en/projects/pipelines/all/20170467

76 See: https://www.eib.org/en/press/all/2019-338-hydrogen-council-and-eib-sign-advisory-agreement-to-address-climate-change-with-increased-investment-in-hydrogen

77 Corporate Europe Observatory, A dangerous distraction: 'renewable' gas keeps us on the fossil fuel path, 2018 https://corporateeurope.org/sites/default/files/attachments/pt1_renewable_gas_-_myths.pdf



THE STRATEGIES EMPLOYED BY GAS COMPANIES TO PAINT THEIR INDUSTRY GREEN MIGHT ENABLE THEM TO CONTINUE RECEIVING PUBLIC FUNDS DESPITE THESE COMPANIES BEING UNLIKELY TO STOP EXTRACTING FOSSIL GAS ANYTIME SOON *(PHOTO: BIGSTOCK / TOVALEX)*

WHAT ARE "GREEN" AND "RENEWABLE" GASES?

The convenient confusion around various forms of gas enables the industry to use "renewable" gas as a sustainable sounding umbrella term to refer to a variety of production processes and end products – including some still derived from fossil gas. They include the following:

BIOGAS/BIOMETHANE:

Both refer to gas produced through anaerobic digestion of organic matter such as manure, sewer sludge, landfill waste, or biomass grown for the purpose. This process involves removing some of the CO2 so that its composition is similar to fossil gas, enabling its transport via existing gas infrastructure. Biomethane is produced by removing extra CO2 from biogas. It is however still methane: it emits CO2 when burned and can leak from pipelines and other infrastructure like fossil gas.

HYDROGEN:

Hydrogen is emission-free when burned but its carbon footprint depends on how it is produced. Around half of hydrogen is currently produced from fossil gas (referred to as "blue hydrogen"). While hydrogen can be produced from renewable electricity (referred to as "green hydrogen"), this "power-to-gas" technology is expensive and so far only exists in pilot project form. Because hydrogen is a smaller molecule than methane, existing gas pipelines, storage facilities, and appliances would need to be renewed to use it. Hydrogen can technically be converted to synthetic methane to adapt to existing infrastructure, but that process requires adding CO2, increasing costs and pollution while decreasing its efficiency.

LOW-CARBON GAS:

Refers to fossil gas hypothetically combined with CCS. While using CCS to strip CO2 from fossil gas cannot be considered "renewable," some industry proponents still lump it into this category. CCS itself remains an uncertain, risky, and still-costly technology, which is currently completely outpriced by renewable electricity in the power sector. It is therefore hard to see how it could become competitive in the next decades.

What can be considered truly renewable gas is hydrogen from excess renewable electricity or locally produced and small-scale biogas made from sustainable biomass. The potential for sustainable renewable gas production in the EU is however only a fraction of what industry claims. According to the International Council on Clean Transportation, renewable gas would meet only 7% of today's gas demand by 2050, and only 6% of transport fuel demand if all production was used exclusively for transport[78].

Scaling up production of renewable gas also raises several environmental challenges. For hydrogen to be "green", it needs to be produced from excess renewable electricity i.e. only when too much of it is produced. Given how expensive the "power-to-gas" (P2G) technology is, this is unlikely to become profitable. Therefore, the P2G plant will either need its own dedicated renewable electricity source (which means hydrogen would still be renewable but would compete with wider decarbonisation efforts for electricity), or it would have to be connected to the grid. Until all grid electricity is from renewable sources, "green" hydrogen would actually be made from fossil fuel energy.

Importing biogas and biomethane from abroad could also replicate the serious harmful consequences that have been documented in the production of biofuels, with land-grabbing, deforestation and competition with food crops. This would clearly undermine its sustainability credentials.

While small quantities of renewable gas may be suitable for local heat and electricity generation or for a few industrial activities that are difficult to decarbonize, they will in any case keep representing only a fraction of the current fossil gas consumption[79].

Gas companies are well aware of this. As Corporate Europe Observatory signals in its report, the core vision of the industry is to continue pumping fossil gas for as long as they can, with small renewable gas capacity giving them a cover of sustainability. Narratives of "renewable" gas are furthermore being used as an umbrella for "decarbonised" or "low-carbon" gases, which are in fact just fossil gas with the future hope of still unproven and highly expensive CCS.

The strategies employed by gas companies to greenwash their business might enable them to continue receiving funds from the EIB and other public banks, despite these companies being unlikely to stop extracting fossil gas anytime soon. This also risks creating a distraction away from the urgent shift needed in energy infrastructure for climate-friendly renewables and electrification.

78 International Council on Clean Transportation, The potential for low-carbon renewable methane in heating, power, and transport in the European Union, 2018 https://theicct.org/sites/default/files/publications/Renewable_Gas_EU-28_20181016.pdf

79 E3G, Renewable and decarbonized gas options for a zero-emissions society, 2018 https://www.e3g.org/publications/renewable-and-decarbonised-gas-options-for-a-zero-emissions-society/

2 A MYTH TO DEBUNK: "GREEN AVIATION"

The myth of "green aviation" risks enabling further public investments to the aviation industry on the basis that it will be possible to make flying sustainable in the future. While some improvements might be possible, the options proposed thus far imply several problematic consequences and distract us from addressing the root of the problem: the growth of the aviation sector.

In response to growing criticisms, the aviation industry and the United Nations agency ICAO (International Civil Aviation Organisation) have announced their intention to make international aviation greener. The proclaimed goal is carbon-neutral growth from 2020 onwards, defined in the program CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation)[80]. CORSIA consists of two main elements: efficiency improvements and new technologies (especially through "green fuels"), and carbon offsetting. It is also worth emphasising that CORSIA does not cover climate effects linked to GHG other than CO2, which are at least twice as important as CO2 emissions[81].

The aviation industry has repeatedly been receiving public money to find new technologies that might slightly cut the carbon emissions of flights. The EIB for instance loaned € 94 million to the Dutch company KLM for the acquisition of more efficient aircrafts (see Chapter 1). Generating incremental efficiency improvements is however becoming more and more difficult and costly.

The aviation industry intends to rely on controversial "sustainable alternative fuels", which are not always better for the climate than conventional kerosene. Biofuels such as palm oil and soya produce much higher emissions once land-use change, fertiliser and pesticide use, transport and processing are taken into account. The burning of fuels containing palm oil produces up to seven times more GHG than petroleum-based kerosene[82].

Less harmful fuels from agricultural waste are available only in limited quantities and will not be enough to satisfy the high demand from a variety of sectors. Fuels made from green hydrogen are technically feasible, but they would have to be produced using surplus renewable energy and we are still a long way from producing enough for agriculture, heating and other forms of transports[83].

Since technological solutions are limited, the ICAO strategy relies mostly on **carbon offsets**. Instead of reducing emissions, airlines are offsetting them by buying carbon credits from other companies and projects. Carbon offset projects include among others energy efficiency, using waste heat in industrial facilities, building hydropower plants that claim to prevent production of energy from fossil fuels, forest conservation projects and tree plantations and the distribution of climate-friendly cooking stoves to women in the Global South.

But a major drawback is that offsetting does not really reduce emissions: the additional emissions in one place are at best balanced out by additional prevention of emissions elsewhere. A study conducted by the Öko-Institut highlights the insufficiency of the ICAO proposal: to limit the average rise of temperature to significantly less than 2°C, emissions from international aviation must be at least 39% lower by 2030 than they were in 2005[84]. Even in the best-case scenario offsetting would not be enough to avert a climate crisis.

In reality, buying carbon offsets leads to an increase of emissions. A central problem in offsetting is additionality: it is impossible by definition to verify whether a carbon credit represents an additional emission reduction, since the saving is based on a comparison with hypothetical emissions. Another study conducted by the Öko-Institut[85] found that over three-quarters of Clean Development Mechanism (CDM) projects, the most important offset instrument under the Kyoto Protocol, were unlikely to have resulted in additional emissions reductions (meaning they would have probably been done anyway) and only 2% had a high likelihood of being categorised as "additional".

Furthermore, the offset projects must permanently lock away the emissions for them to truly cancel out emissions. Carbon trading falsely presumes an equivalence between fossil carbon released from permanent storage underground, and carbon temporarily stored in trees. Offset schemes assume that forests will live for hundreds of years, ignoring the risks of fires, diseases or even clearing to make way for roads, farming and other developments.

Offset projects such as tree plantations, hydroelectric power dams or forest conservation also often lead to increased conflicts, habitat degradation and displacement of indigenous peoples and their traditional land-use practices[86]. As pointed out in a recent report by the NGO Stay Grounded Network, the whole rationale of offsetting is profoundly unjust: to enable a small portion of the world population to continue taking more and more flights, others are forced to change their way of life – those people whose emissions are already very low and



HOPES IN FUTURE TECHNOLOGIES OR FUELS, AND THE FALSE BELIEF THAT OFFSETS CAN HELP COMBAT CLIMATE CHANGE, JUST POSTPONE ANY EFFECTIVE MEASURES TO REDUCE THE GROWTH IN AVIATION *(PHOTO: BIGSTOCK/DECHEVM)*

who tend to experience the worst impacts of the climate crisis[87].

With its offset strategy, the aviation industry has been able to dodge effective measures to limit air travel, such as the abolition of aviation's countless tax privileges. Kerosene, for example, is still not being taxed in most countries.

Airports also engage in offsetting to greenwash their image and to counter oppositions. Hundreds of airports are participating in an Airport Carbon Accreditation (ACA) programme, which allows them to be labelled carbon-neutral without having to reduce a single flight. The measures only target the GHG emissions emitted on the ground and rely extensively on offsetting emissions[88]. Proponents of airport expansions often refer to the ACA scheme to deflect public criticisms. This scheme is systematically mentioned in the EIB's justification for the expansions of airports that have the accreditation[89].

Public money is already flowing to make airports appear "green". The EIB for example invested € 86 million to improve the energy efficiency of AENA, one of the largest airport operators in Spain[90]. While there is no doubt that energy efficiency is highly needed, EIB investments should rather focus on improving the energy efficiency of the public sector, railway and housing than giving green credentials to the aviation industry. Reducing the energy consumption of airports is marginal compared to the total induced emissions of the given airports (i.e. including indirect "Scope 3" emissions as per the Greenhouse Gas Protocol) through all the flights they are enabling.

Given how urgent it is to reduce GHG emissions, far-reaching expectations for future technology improvements should not guide decisions. **Hopes in future technologies or fuels, and the false belief that offsets can help combat climate change, just postpone any effective measures to reduce the growth in aviation[91].** The role of a climate bank should not be to feed this trend, but rather to **help develop other transport modes with higher positive impacts for citizens and their territories.**

80 See: https://www.icao.int/environmental-protection/CORSIA/Pages/default.aspx

81 Stay Grounded, The Illusion of Green Flying, 2017 https://stay-grounded.org/wp-content/uploads/2019/02/The-Illusion-of-Green-Flying.pdf

82 Korteland, M. and Faber, J., Estimated Revenues of VAT and Fuel Tax on Aviation, 2013 http://cedelft.eu/publicatie/estimated_re-venues_of_vat_and_fuel_tax_on_aviation/1401

83 Transport & Environment, Roadmap to decarbonising European aviation, 2018 https://www.transportenvironment.org/sites/te/files/publications/2018_10_Aviation_decarbonisation_paper_final.pdf

84 Öko-Institut, Emission Reduction Targets for International Aviation and Shipping, 2015 https://www.europarl.europa.eu/RegData/etudes/STUD/2015/569964/IPOL_STU(2015)569964_EN.pdf

85 Öko-Institut, How additional is the Clean Development Mechanism?, 2016 https://ec.europa.eu/clima/sites/clima/files/ets/docs/clean_dev_mechanism_en.pdf

86 See for instance:
International Work Group for Indigenous Affairs, New green powers in the global land grab violate indigenous peoples' rights, 2017 https://www.iwgia.org/en/focus/land-rights/2520-new-green-powers-in-the-global-land-grab-violate-indigenous-peoples-rights
International Institute for Environment and Development, 'Land grabbing': is conservation part of the problem or the solution?, 2013, https://pubs.iied.org/pdfs/17166IIED.pdf

87 Stay Grounded, The Illusion of Green Flying, 2017 https://stay-grounded.org/wp-content/uploads/2019/02/The-Illusion-of-Green-Flying.pdf

88 Ibid.

89 See for instance the following Environmental and Social Impact Assessments of airports projects:
https://www.eib.org/attachments/registers/68156535.pdf
https://www.eib.org/attachments/registers/75532379.pdf
https://www.eib.org/attachments/registers/85454133.pdf
https://www.eib.org/attachments/registers/69558856.pdf

90 See: https://www.eib.org/en/press/all/2019-107-investment-plan-for-europe-eib-provides-aena-with-eur-86m-to-improve-the-energy-efficiency-of-its-airports

91 Biofuel Watch, Corsia: a false solution to the very real threat of emissions from aviation, 2019 https://www.biofuelwatch.org.uk/2019/corsia-briefing/
Fern, Unearned Credit: Why aviation industry forest offsets are doomed to fail, 2017 https://www.fern.org/fileadmin/uploads/fern/Documents/Unearned%20Credit_0.pdf

3 IS BANKING ON NATURE A SOLUTION? THE RISKS OF THE FINANCIALISATION OF NATURE

Putting a price on nature is increasingly being promoted as an approach to address pressing environmental issues like biodiversity loss. Nature is becoming conceptualized as a collection of "natural capital" assets that provide ecosystem services which can be measured and monetized. **The trend towards green finance, nature-based solutions, biodiversity offsetting and the financialisation of nature bears significant risks** – some of those described below.

Unfortunately, **the EIB intends to be a pioneer in the field as part of its commitments on climate and the protection of biodiversity.**

In 2014, the EIB and the European Commission created the little-known Natural Capital Financing Facility (NCFF)[92]. This financial instrument was "to prove to the market and to potential investors the attractiveness of biodiversity and climate adaptation operations in order to promote sustainable investments from the private sector"[93]. The NCFF is financed through the LIFE programme of the European Commission, with a total budget of € 100 million for investments, plus € 10 million for technical assistance, using funds that had until now been awarded as public grants.

Proponents of such financial instruments argue that the best way to reorient private capital to address the climate and environmental crises is through the use of public money to incentivise and catalyse private finance, via public guarantees, public subsidies and so-called blended finance[94].

Shifting from public grant-based funding to these new forms of financing however raises important concerns. These financial instruments require success to become measured in terms of profitability and rate of return rather than on the ability to protect or enhance nature. Moreover, it is arguably not compatible with what science asks us to do in terms of timing and ambition. Promoting these instruments could for instance foster controversial policy tools such as carbon and biodiversity offsetting, which would only worsen the issue.

One of the EIB loans under the NCFF went to CDC Biodiversité[95], a French bank that generates offset credits for companies to compensate for their impacts on biodiversity. Biodiversity offsets allow companies such as real estate developers, infrastructure and mining companies to offset their destruction of biodiversity by protecting or even "recreating" natural habitats and ecosystem functions at a different time and place. For example, CDC Biodiversité has purchased thousands of hectares of land in the South of France which has been impacted by earlier intensive use, and is seeking company finance for the restoration project on that land. In exchange, the companies receive a compensation certificate that they can use to greenwash the environmental damage caused by their projects.

Offsetting has been rapidly expanding as a promising policy for allowing development and economic growth while achieving a "No Net Loss" of biodiversity. The "Net" is important because it enables destruction or pollution on the assumption that the damage can be offset.

92 See: https://www.eib.org/en/products/blending/ncff/index.htm

93 See: https://www.iucn.org/news/europe/201607/towards-implementation-nature-based-solutions-cities

94 Green Finance Observatory, 50 Shades of Green Part III, 2020 https://greenfinanceobservatory.org/wp-content/uploads/2020/03/50-shades-part-III_v5.10.pdf

95 See: https://www.eib.org/en/projects/pipelines/all/20170772



THERE CANNOT BE 'NO NET LOSS' OF BIODIVERSITY WITHOUT BIODIVERSITY LOSS OCCURRING SOMEWHERE

(PHOTO: BIGSTOCK/KLETR)

Central to the concept of biodiversity offsetting is the idea that we can reduce any particular aspect of biodiversity into stable, independent and quantifiable units that can be added up, divided and shifted around like figures in a spreadsheet. While this might seem like an appealing idea, it is fundamentally flawed as it separates the "value" of biodiversity from the complex ecological, social and geographic relations that allow that biodiversity to exist, overlooking the uniqueness of habitats and disregarding the importance of nature for local communities.

Biodiversity offsets have shown a spectacularly poor social and environmental track record in practice. A study looking at a broad range of restoration projects around the world found that up to two-thirds of offsets aiming to restore an ecosystem were unsuccessful[96]. The figure was even higher in offsets that created ecosystems from scratch. Another study analysing 558 offset projects between 1990 and 2011 found that despite offset attempts the net loss of habitats was 99%[97]. This demonstrates the enormous difficulty of restoring ecosystems and limited added value of companies' conservation initiatives.

The sad reality is that whereas biodiversity losses are guaranteed, future biodiversity gains are uncertain, as they are likely to be realized late or not at all[98]. Evidence shows that it is unrealistic to expect offsets to be secured in the long-term, let alone in perpetuity. In the end, this inevitably means a net loss of biodiversity.

Like carbon offset projects, biodiversity offsetting also tends to perpetuate injustices, with evidence revealing multiple cases of land grabbing, community displacements and human rights abuses[99].

The trendy so-called **"nature-based solutions",** which encompass a variety of conservation and restoration projects, are almost always financed by offsetting mechanisms. These nature-based solutions are being widely promoted by the European Commission, which defines them as "solutions that are inspired and supported by nature, which are cost-effective, simultaneously provide environmental, social and economic benefits and help build resilience"[100]. As the NGO Green Finance Observatory points out, "nature-based solutions" without offsetting are unfortunately unlikely to happen, since their appeal resides precisely in their "cost-effectiveness" compared to curbing destruction, as well as in their ability to provide business opportunities[101]. They are in practice only the new name given to carbon and biodiversity offsetting.

These mechanisms, along with many other attempts to create markets for ecosystem services, all contribute to the financialisation of nature. **Rather than a form of environmental protection, pricing natural systems ultimately becomes a means for promoting the privatisation and financialisation of nature and creating new ways for the financial sector to continue earning profits.**

Over the last decade, the EIB has been trying to be proactive in engaging with this field of activities and showing that public banks can lead the way in investing in natural capital. The EIB has also been active in supporting carbon markets, through the direct management of several carbon funds and specific funds for the purchase of carbon offsets generated from Clean Development Mechanisms (CDM) projects[102]. The EIB has been at the forefront of carbon market development for example through its support for REDD+ via the Althelia Climate Fund, an investment fund that aims to profit from payment for ecosystem services, including offsets from forests[103].

But looking back at the experience of the NCFF, while this initiative has been introduced as a means of building a "business case" for investing in nature, the facility seems to struggle to show that cash flows and revenues can be generated through biodiversity protection projects.

Indeed, as of April 2020, the EIB had only financed 5 operations[104] worth € 43.5 million, while 2 other operations were under appraisal. And out of these 5 operations, 2 were not even direct support to projects, but support through financial intermediaries. The EIB and the Commission even had to expand the end of the initiative until the end of 2021 to disburse the funds foreseen under the initiative. Hence, at this stage, it is hard to see how this pilot project could be labelled as a success.

This is not to say that sustainable finance has no role to play in a desirable future, but it should target a reduction in the consumption of natural resources and energy rather than green growth, and prioritize people's wellbeing and environmental protection over profit maximisation. **The EIB should finance projects that mitigate climate change, build resilience and do no harm, while in parallel refraining from entering the new business of offsets and payments for ecosystem services.**

96 Suding, K.N, Toward an era of restoration in ecology: successes, failures and opportunities ahead, 2011

97 Nordic Council of Ministers, Planning biodiversity offsets, 2018 https://norden.diva-portal.org/smash/get/diva2:1201285/FULLTEXT01.pdf

98 Fern, Biodiversity offsetting in practice, 2014 https://www.fern.org/fileadmin/uploads/fern/Documents/Biodiversity3_EN.pdf

99 See for instance:
Kill, J. et al., Rio Tinto's biodiversity offset in Madagascar: Double landgrab in the name of biodiversity, 2016 https://wrm.org.uy/wp-content/uploads/2016/04/RioTintoBiodivOffsetMadagascar_report_EN_web.pdf
Carbon Trade Watch, A tree for a fish, 2014. http://www.carbontradewatch.org/downloads/publications/CTW_A_Tree_for_a_Fish-EN.pdf
Counter Balance, Biodiversity Offsetting: A threat for life, 2017 http://www.counter-balance.org/wp-content/uploads/2017/10/Biodiversity_Offsetting_report_v4-screen.pdf

100 See: https://ec.europa.eu/research/environment/index.cfm?pg=nbs

101 Green Finance Observatory, 50 Shades of Green Part III, 2019, p.26 https://greenfinanceobservatory.org/wp-content/uploads/2020/03/50-shades-part-III_v5.10.pdf

102 Counter Balance, Banking on Carbon Markets, 2011 http://www.counter-balance.org/wp-content/uploads/2011/12/BANKING-ON-CARBON-MARKETS-1.pdf

103 See: https://www.eib.org/en/projects/pipelines/all/20100720

104 See: https://www.eib.org/en/products/blending/ncff/project-examples/index.htm#table



BIODIVERSITY OFFSETTING NOT ONLY DISPLACES COMMUNITIES TO MAKE ROOM FOR NEW INFRASTRUCTURES, BUT THE VERY COMPENSATION MEASURES SUPPOSED TO MAKE UP FOR THE IMPACTS OF THESE PROJECTS CAN CAUSE THE DISPLACEMENT OF OTHER COMMUNITIES, THAT OTHERWISE WOULD NOT BE IMPACTED

(ILLUSTRATION: LINDSAY NOBLE DESIGN)

4 WHEN GREEN PROJECTS ARE SOCIALLY HARMFUL: CLIMATE OVER HUMAN RIGHTS?

Despite being portrayed as green or climate-friendly, large infrastructure projects carried out under development objectives can have highly detrimental effects on populations living nearby. Unfortunately, projects funded by the EIB are no exception to this.

The negative impact of green projects is well illustrated by a geothermal project in Kenya that the NGO CEE Bankwatch Network has been closely monitoring[105]. In 2010, the EIB, together with the World Bank, the French Agence Française de Développement, the German KfW and the Japan International Cooperation Agency, invested in **the extension of the geothermal power plants Olkaria I and IV**, which resulted in the resettlement of four indigenous Maasai villages inhabited by around 1.000 people.

During the appraisal stages, the EIB failed to recognise the Maasai community as indigenous peoples, even though they self-identify as such and their status is recognized internationally[106]. It failed to safeguard the communities by offering a compatible resettlement scheme, ensuring their



THE OLKARIA GEOTHERMAL PROJECT HAS UPROOTED THE LIVES OF FOUR MASAAI VILLAGES

(PHOTO: BIGSTOCK/OKSANA BYELIKOVA)

105 See: https://bankwatch.org/project/olkaria-geothermal-development-kenya

106 See: https://www.counter-balance.org/negative-impact-geothermal-kenya/



THE NENSKRA HYDROPOWER PLANT IS LOCATED IN UPPER SVANETI, A REGION KNOWN FOR ITS BEAUTY AND UNIQUE CULTURE OF THE SVAN PEOPLE *(PHOTO: BIGSTOCK/OKSANA BYELIKOVA)*

right to continue their culture and to fair and equitable benefit-sharing for commercialisation of natural resources. As a consequence, the Maasai were deprived of the right to free, prior and informed consent and the right to secure customary land rights. They were relocated to a new village, RAPland (RAP stands for Resettlement Action Plan), which was built by the project promoter. The reluctant migrants swapped 4,200 acres of land for just 1,700, on land that was much less productive than before. The houses, while appearing modern, are culturally unsuitable for Maasai and lack basic amenities[107].

Many also complained that most of the jobs went to "outsiders" from other ethnic groups. Corruption and nepotism often prevented the local communities from accessing opportunities. Ultimately, the competition for rights and benefits has led to increased conflicts in the community.

The geothermal project also led to many health problems, for both humans and livestock. For people, these include respiratory illness, constant colds, skin rashes, and miscarriage. Noise pollution and the stench of hydrogen sulphide from the plants also lead to frequent headaches.

This "green" energy project is not an isolated example. The EIB recently approved a loan for the **Nenskra hydropower plant in Georgia**, despite the project being heavily contested by local populations[108]. If built, the 280-Megawatt plant would cause irreparable damage to the unique biodiversity of the Caucasus Mountains and the livelihoods of the indigenous Svan people who have lived in the region for many generations.

This billion-worth project will flood forests and communal lands and cause serious impacts for the livelihoods, culture, health, safety, and general well-being of the Svans[109]. Despite the EIB's reassurance that physical resettlement has been avoided[110], some local residents fear that the new reality will leave them no choice but to move away.

107 See: https://seeingconflict.org/ol-karia

108 See for instance: https://bankwatch.org/blog/new-wave-of-protests-against-the-nenskra-dam https://bankwatch.org/blog/svan-communities-block-hydro-development-in-svanetia https://oc-media.org/protesters-rally-against-construction-of-big-dams-in-georgia/

109 See: https://bankwatch.org/project/nenskra-hydropower-plant-georgia#1561628105588-d1c82e71-cad8

110 See Environmental and Social Impact Assessment: https://www.eib.org/attachments/registers/79579680.pdf

Once again, the EIB has failed to recognize the indigenous status of affected communities. The standards of the bank are supposed to protect the rights of indigenous peoples and their cultures even if they are not recognised as such by their own countries' legislation, as in the case of the Svans in Georgia. Yet, the EIB did not enforce its own standards effectively, instead prioritizing vague political interests over the rights of Svans. Under political pressure, EIB standards and principles seem to hold little weight.

The Nenskra plant is one of 35 hydropower plants slated for development in the region. According to Bankwatch, *"the rush to build hydropower plants in Georgia is not backed by any energy strategy and without regard for the combined environmental consequences and socio-economic impacts."*[111] There are also serious doubts over the financial viability of the Nenskra plant, with the Georgian citizens risking being the ones who will have to bear the costs[112].

If the EIB wants to become the "EU Climate Bank", it needs to take serious steps to ensure that it does not fund additional damage to the environment and local populations. While the EIB commitment to achieve a 50% target for climate and environmentally sustainable investments is a welcome step forward, it must focus on the quality – and not quantity – of its climate actions. There can be no sustainable investment when the livelihoods and wellbeing of local communities are being affected, especially when these people are not given the right to oppose a problematic project. Supporting unsustainable projects, even if labelled as "green" also risks being counter-productive and ultimately lead to a setback in the energy transition.



PROTESTERS MEET IN MESTIA TO OPPOSE THE NENSKRA HYDROPOWER PROJECT

(PHOTO: VOICE OF AMERICA)

111 See: https://bankwatch.org/map-planned-hydropower-plants-in-upper-svaneti-georgia

112 See: https://bankwatch.org/press_release/in-georgia-leaked-contract-shows-nenskra-hydropower-project-to-cost-country-usd-60-million-a-year

5 INVESTING IN INFRASTRUCTURE MEGA-CORRIDORS AND A DEVELOPMENT MODEL AT ODDS WITH THE PARIS AGREEMENT

In recent years Counter Balance has explored the new wave of large-scale infrastructure projects financed all over the world in an attempt to understand the main drivers behind the "global infrastructure agenda". International Financial Institutions like the EIB are a key driving force behind this trend.

As described in Chapter 1, **the EIB has been strongly supporting the expansion of ports, roads for exporting raw materials and airports. Special economic zones and logistic centres also regularly benefit from EIB loans.** For example, in 2017 the EIB signed a € 100 million loan for new logistical and warehousing facilities at the logistics platform in the Port of Barcelona[113] (counted for 50% as "Climate Action"), or in 2018 a € 115 million loan for the development of four logistics parks in another Spanish region (Castilla – La Mancha[114]). A similar € 150 million loan was signed in December 2018, targeting the construction of new warehouses and modernising supply chains in Romania[115].

The promoters of this agenda rely on the role of infrastructure investments as a means to restore economic growth, demand and jobs in the global economy. A consensus has emerged on a **"global infrastructure agenda"** largely based on the assumption that there is a huge **"infrastructure gap"** to be filled. For example, the Organisation for Economic Co-operation and Development (OECD) estimates that an additional $ 70 trillion in infrastructure will be needed by 2030. It is important to point out that this infrastructure gap does not focus solely on bringing light and water to deprived communities through highly needed infrastructure, but is based on a much more commercial objective – ensuring accelerated extraction, production and consumption along infrastructure mega-corridors.

In the hopes of many governments, infrastructure is to become a new "asset class", attracting private liquidity and lessening the financial burden on constrained public coffers. To do this, various actors, including the EIB, are called to put in place the various prerequisites for this new agenda to materialise. This is typically based on a series of key assumptions:

>> Infrastructure projects have to be mega-sized to attract large amounts of capital for a long time.

>> Infrastructure needs to be turned into an asset class so that investors can look at infrastructure as pure revenue streams, rather than as hospitals, schools, bridges, power plants or windmills. An ad hoc financial environment has to be built in order to manage and trade the new financial assets: for instance, by dismantling restrictions on investments for pension and insurance funds, increasing derivative-based financial products, and developing debt markets.

>> A new wave of public-private partnerships (PPPs) and privatisations needs to happen, including infrastructure in the health or education sector.

This agenda needs public finance to develop as planned. Indeed, public funds are necessary for infrastructure projects to see the light of day, but also to de-risk the participation of private actors. There is a real threat that public finance is actually captured by this agenda, to the detriment of local communities and citizens. **A risk is that public money ends up guaranteeing the profits of private investors from revenue streams associated with user fees paid by citizens.**

The "global infrastructure agenda" also seeks – in the name of development – **to create new infrastructure "mega-corridors"**. These infrastructure corridors are not new, but the plans that are now being developed are on a scale never seen before – hence explaining the growing use of the term "mega-corridors". From Africa to Asia, infrastructure masterplans have been drawn to reconfigure whole land masses – and the seas connecting them – into "production and distribution hubs", "development corridors", "special economic zones" and "interconnectors".

113 See:https://www.eib.org/en/projects/pipelines/all/20150793

114 See: https://www.eib.org/en/projects/pipelines/all/20170977

115 See: https://www.eib.org/en/projects/pipelines/all/20170658

The most famous of the corridor plans is China's **Belt and Road Initiative** (BRI), which is often criticised for its geopolitical implications, but the European Union is also promoting mega-corridors. For instance, the communication from the European Commission "Connecting Europe and Asia - Building blocks for an EU Strategy"[116] presented in September 2018 is a clear attempt to promote a similar – if not competing – mega-corridor to link the European and Asia continents.

The gigantic scale of infrastructure proposed will profoundly transform and redesign entire territories, regions and economies, and consequently the life of billions of people. Mega-corridors are primarily aimed at enhancing export of raw materials and goods and integrating economies in global markets. They will also streamline transportation routes globally, and enhance access to a limited number of hubs where demand will be centralised. In short, this agenda aims at speeding circulation in the production sphere globally and thus revamp economic globalisation.

This model is having devastating impacts on the climate, despite efforts at European level through the Sustainable Finance agenda or recently by the OECD and the World Bank to label this agenda under the heading of "sustainable infrastructure"[117].

116 European Commission, Connecting Europe and Asia: Building blocks for an EU Strategy, 2018 https://eeas.europa.eu/sites/eeas/files/joint_communication_-_connecting_europe_and_asia_-_building_blocks_for_an_eu_strategy_2018-09-19.pdf

117 See for example: OECD, Financing Climate Futures: rethinking infrastructure, 2018 http://www.oecd.org/environment/cc/climate-futures/



Large dams, power grids, transport projects, water and waste management provision or energy extraction/ generation projects have tended to come with significant environmental and social costs. The top-down mega-project model that has prevailed for decades has usually proven to be ineffective in serving the needs of people and their communities, or of society in general, as affected communities and civil society groups monitoring infrastructure finance have long pointed out.

In addition, mega-corridors all over the world are based on high-carbon transport (airports, motorways) and energy infrastructure (including fossil fuels). As a result, **this infrastructure agenda is simply not in line with decarbonisation targets, or with commitments to tackle climate change on a global scale and align financial flows with the objectives of the Paris Agreement**.

In this context, **public banks like the EIB should aim at supporting infrastructure that prioritises social and environmental justice, instead of scaling-up efforts to financialise infrastructure projects that are disconnected from the needs of citizens and territories.** Therefore, it will be crucial for the EIB not to further promote projects which are key components of mega-corridors. The recent loan to the Piraeus port and its Chinese-led owner – see Chapter 1 – should act as a wake-up call for the EIB in this regard.



THIS INFRASTRUCTURE AGENDA IS HAVING DEVASTATING ENVIRONMENTAL IMPACTS, DESPITE EFFORTS TO LABEL IT AS "SUSTAINABLE INFRASTRUCTURE"

(PHOTO: BIGSTOCK/ MAGNIFIER)

TWO PATHS, ONE FUTURE: WHAT SOCIETY DO WE WANT?



(ILLUSTRATION: SUAREZ MURALS)

- X FALSE PROMISES OF "GREEN" GAS
- X THE MYTH OF "GREEN" AVIATION
- X BANKING ON NATURE
- X SOCIALLY HARMFUL GREEN PROJECTS
- X INFRASTRUCTURE MEGA-CORRIDORS

- ✓ DECENTRALISED RENEWABLE ENERGY
- ✓ BIKE LANES & RAIL ELECTRIFICATION
- ✓ A MORE CIRCULAR ECONOMY
- ✓ PRIORITY TO ENERGY EFFICIENCY
- ✓ RELOCALISATION OF AGRICULTURE AND INDUSTRY

CHAPTER 3

The way forward: key steps for the EIB to become the "EU Climate Bank"

With the creation of its Climate Roadmap in 2020, the EIB has a golden opportunity to deliver on its climate commitments and adopt a solid strategy until 2025 which would set in stone how its operations will all become aligned with the objectives of the Paris Agreement.

The counter-cyclical role that the EIB is to play under the EU economic recovery package following the COVID-19 crisis should not come at the expense of its long-term role as a responsible investor, for example by giving away blank cheques to polluters and industries who are not proactive in engaging on a decarbonisation pathway. This is a prerequisite for a genuine transformation into the "EU Climate Bank".

UPCOMING POLICY PROCESSES AT THE EIB

ONE
Creation of EIB Climate Bank Roadmap:
to be adopted by end of 2020 following a stakeholder engagement process

TWO
Review of EIB Transport Policy:
public consultation to be launched in late 2020

THREE
Review of EIB environmental & social principles and standards:
public consultation to be launched in the second half of 2020

FOUR
Review of EIB Transparency Policy:
public consultation to be launched in late 2020

RECOMMENDATIONS

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1

The EIB needs to align all its operations with a 1.5°C scenario (instead of 2°C as used in the current strategy). **There is no contradiction between this objective and the role that the EIB is to play in economic recovery plans following the COVID-19 crisis.** The Climate Roadmap should spell out under solid action plans the concrete steps needed to align EIB operations with the Paris Agreement and raise its climate and sustainable investments to at least 50% by 2025.

/
2

The EIB should deliver on its **fossil fuels ban** and eliminate in practice all financing to fossil fuels. The bank should close **the existing loopholes** in its newly adopted energy policy. For example, the emissions standard for power generation should be lowered to a threshold of 100 gCO2 per kWh – in line with the threshold recommended by the EU sustainable taxonomy for a significant contribution to climate mitigation. The EIB should also **make all support to nuclear projects ineligible**.

/
3

The EIB must **phase out all "brown" lending and review its sectoral policies**. For example, the bank should eliminate financing to high carbon projects like waste incinerators and heavy industry sectors like cement, aluminium, steel etc. As for fossil fuels, there are serious reputational and legal risks associated with the high emitting and non-Paris aligned investments of the EIB.

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4

In the **transport sector, the roadmap should explicitly exclude high carbon projects such as airports, motorways and highways**, **and maritime ports**. Support to industry promoting these transport modes and/or 'greenwashing' them (such as aviation, airport associations and car-makers) should be dramatically reduced. The bank is planning to review its Transport Policy once the Climate Roadmap is adopted, which would provide the opportunity to better define the areas where the EIB needs to focus its efforts, such as **scaling-up financing and support for zero-carbon transport infrastructure, bike lanes, electric urban public transport and rail electrification**.

5

Raising the bar on support to corporates: at the time being, the EIB lags behind many commercial banks – which already exclude companies highly dependent on coal or coal developers. **The EIB should require all its clients to have in place solid, time-bound decarbonisation plans, especially for carbon-intensive companies.** Any public support via the EIB should be made conditional on science-based targets and high-level commitments at corporate level.

6

Put Just Transition at the heart of EIB's investments in the next decade. Priority should be given to investments in **energy efficiency, building renovation, decentralized renewable energy sources, circular economy and other forms of infrastructures that are connected to the needs of citizens and territories.** The EIB needs to support a more decentralised approach to a climate transition by supporting community-led initiatives and small-scale projects, developing sufficient skills and human resources to finance such projects and increase contacts with local and regional authorities and financial institutions like cooperatives and national public banks. The EIB should pay specific attention to the social impacts of its operations so that it also tackles growing territorial and social inequalities through its long-term lending.

7

Support relocalisation of agriculture and industry instead of infrastructure mega-corridors based on carbon-intensive projects encouraging the globalization of value chains and a socially and environmentally harmful trade model. The COVID-19 crisis is demonstrating the crucial need to relocalise activities as a fundamental condition for more sustainable social and economic systems. Unfortunately, the EIB's investments in mega-corridors are currently moving us in the complete opposite direction.

8

Mainstream climate change considerations in all EIB operations: what needs to happen is not only an increase of climate-friendly investments, but the mainstreaming of climate considerations throughout all EIB operations – including the 50% of investments which won't be focusing on climate and environmental sustainability as such – especially in the **economic and financial appraisal** of EIB projects. A key step is to improve the **carbon footprint** assessment of its projects so that it allows for an assessment of less carbon-intensive alternatives, and systematically includes indirect emissions.

9

No dirty investments via financial intermediaries. It will be crucial for the EIB to ensure that its intermediated operations via commercial banks or investment funds do not fuel climate change. In its energy policy, the bank promises that financial intermediaries will not support fossil fuels under the EIB's support. In order to make sure this happens all intermediaries should have decarbonisation plans if they want to benefit from EIB funding and the EIB has to secure sufficient human resources and methodologies. As part of the review of its Environmental and Social standards in 2020, a new standard on financial intermediaries should set this reinforced approach in stone.

10

Raise the bar on transparency: a major transparency offensive needs to happen for the EIB to become a more transparent and accountable institution. The bank will revise its Transparency Policy in 2020, offering the chance to enhance transparency at both governing bodies and project levels. On the climate front, the EIB should proactively disclose the climate impacts of all its operations, on a project-by-project basis. The EIB should ensure that intermediated loans are subject to the same transparency requirements as other types of loans.

11

The EIB should reinforce the eligibility criteria for climate action in order to avoid greenwashing. The promise of technological solutions and the push for niche technologies (such as Carbon Capture and Storage, green fuel and renewable gas) should not be a primary focus and should not be used as an alibi not to operate the radical transformation that the bank refers to. The EIB should at least align its eligibility criteria for climate action with the EU sustainable taxonomy.

12

It is crucial that the projects funded by the EIB to address climate change do not cause other types of harm such as biodiversity destruction and social impacts. The EIB needs to **reinforce its environmental, social and human rights due diligence and monitoring** for all its projects, including via financial intermediaries. **A stringent "do no harm" and "do only good" approach should be an essential part of the Climate Roadmap and the future environmental and social standards of the EIB. The EIB should look at the larger societal impacts of its operations** and not give up under pressure from lobby and industrial groups.

13

Achieve EIB climate ambitions without contributing to the financialisation of nature. The bank should explicitly avoid using carbon and biodiversity offsets, due to their unsolvable issues.

ANNEX

EIB'S REPLY TO THE REPORT

20 May 2020

Thank you for providing the European Investment Bank ("EIB" or the "Bank") with the opportunity to comment on the Counter Balance draft report titled "The EU Climate Bank – Greenwashing or a banking revolution?" ("CB report").

Although data in the CB report is largely backward looking and many facts are already out of date, we find the Counter Balance's recommendations on the way forward pertinent and useful as input to our ongoing stakeholder engagement on the EIB Group's Climate Bank Roadmap. We would also like to point out that the report sometimes makes misleading statements by using incorrect figures, anecdotal examples and information taken out of context, while omitting relevant updates on important changes and improvements that have already been implemented.

EIB ENERGY LENDING POLICY

We are pleased to note that the CB report already acknowledges that the decision by the EIB Board of Directors on the new Energy Lending Policy (ELP) in November 2019 is "a key step forward". The document can be accessed online here: https://www.eib.org/en/publications/eib-energy-lending-policy. In this context, we would like to emphasize that:

>> The EIB is the first International Finance Institution (IFI) to phase out support to energy projects reliant on all types of fossil fuels, including natural gas projects, putting the EIB at the forefront of the financing community in terms of climate ambitions. This is a significant change in the lending policy of the Bank, which has financed in the past several gas infrastructure projects (as illustrated by the CB report).

>> As a temporary exemption, the EIB Board of Directors agreed to approve projects already under appraisal and projects on the 4th list of Projects of Common Interest (PCIs) co-financed with EU Budget until the end of 2021. As the EIB continues to reinforce its role as the EU Climate Bank, this policy will be implemented in a rigorous manner. The ELP provides detailed technical annexes presenting systematically the project eligibility as well as technical and economic assessment criteria applied by the Bank. The ELP applies to all EIB activities in the energy sector, inside and outside the EU.

>> The ELP stipulates an emission standard of 250g CO2e/kWh that applies to individual power plants, and is far below the emissions of best available CCGTs. This threshold is effectively very similar to what the EU's Technical Expert Group on Sustainable Finance has just proposed as screening criterion on Doing No Significant Harm (DNSH) to the climate mitigation objective (i.e. a fuel neutral threshold of 262 g/KWh life-cycle emissions per plant). The 100g CO2e/kWh mentioned in the CB report is the threshold for an economic activity counting as a substantial contribution to the climate change mitigation objective – i.e. to count as climate finance.

>> As indicated in the ELP, it should be noted that "the Bank will make a mid-term review on this lending policy in early 2022 in order to discuss the implications of the EU Sustainable finance Taxonomy, of further policy development in the context of the European Green Deal and the EU external action".

ONGOING WORK ON THE EIB GROUP'S CLIMATE BANK ROADMAP

In November 2019, the EIB Board of Directors agreed on a new level of commitment towards climate action and environmental sustainability. The share of the EIB finance dedicated to climate action and environmental sustainability will rise to 50% by 2025 and beyond. This increase in EIB Group finance aims to support over a trillion euro of sustainable investments in these sectors over the critical decade ahead (2021-2030).

The EIB Group will continue to support investments under a wider range of public policy goals during this period, including cohesion, innovation, infrastructure and SME financing. The new commitment, therefore, also ensures that all EIB Group financing activity, regardless of the policy goal, is aligned to the Paris Agreement by the end of 2020. The final element of the new commitment is the strong willingness to support a just transition for those regions or countries more affected by the transition to a low-carbon economy. The Group is working hard to put this commitment into practice.

To this end, a Climate Bank Roadmap is currently being developed to provide a detailed framework for the EIB Group's activities on climate action and environmental sustainability over the first five years of its new commitment, from 2021 to 2025. We would like to thank Counter Balance who has already contributed to this process by providing their feedback and input – together with more than 120 other stakeholders until mid-May 2020. For more information, please visit our dedicated page on the EIB website: https://www.eib.org/en/about/partners/cso/consultations/item/cb-roadmap-stakeholder-engagement.htm.

The Climate Bank Roadmap will determine how the EIB Group will implement the new ambition over the period 2021 to 2025. The scope of this ambition is broad – touching upon the climate, environmental and social aspects underpinning sustainable development. In the context of the Roadmap, an operational approach to more systematically invest in climate and environment actions that entail high social benefits and contribute to social development is being pursued. The transition towards a resilient decarbonised economy needs to be both fast and fair.

The EIB Group aims to present the Climate Bank Roadmap to the Board of Directors in the autumn of 2020, in a timely manner before the formal start of the new commitments in January 2021. Engagement on the Climate Bank Roadmap 2021-2025 will inform the updating of our Climate Strategy, assist us to set ambitious approaches for Paris Alignment in different sectors and help us lay out work plans fit for the critical decade ahead. The engagement process will complement future public consultations, e.g. on the EIB Transport Lending Policy and the EIB Environmental and Social Statement, as well as on the related Standards.

EIB TRANSPORT LENDING POLICY

The EIB is the EU 's policy-driven bank. The Bank's lending in the transport sector contributes to multiple EU policy objectives including sustainable development, balanced economic growth, environmental protection, regional development, promoting scientific and technological progress, and enhancing economic, social and territorial cohesion. The current EIB Transport Lending Policy from 2011 is available on the EIB website: https://www.eib.org/en/publications/eib-transport-lending-policy.

EIB's investments in this sector are subject to eligibility criteria aligned with EU policy goals and are designed to filter out projects, which cannot demonstrate adequate economic returns or pose too high societal risks. The expected economic rate of return, including externalities such as carbon emissions and air pollutants, is differentiated across transport modes. For instance projects with long-term benefits for the climate that may be difficult to quantify, such as in the public transport and rail sub-sectors, are accepted with lower returns in comparison with to projects in the roads and aviation sub-sectors. This is reflected in the fact that a relative high share of investments related to transport projects are counted toward the Climate Action target of the Bank: Over 60% of the signed loan amount in the transport sector counted to the Climate Action target in the period 2015-2019. In addition, EIB has prioritised road safety and aviation safety in its projects through its operations in recent years.

In the near future, the EIB will update its Transport Lending Policy drawing on the framework that will be developed under the EIB Group Climate Bank Roadmap (see above). This will be done to the backdrop of the fact that, in 2018, the transport sector within the EU emitted just over 1 million tons of carbon – 29% of all GHG emissions. The EIB Transport Lending Policy will be updated taking into account of its role as the EU Climate Bank, aligning with the goals and principles of the Paris Agreement, as well as incorporating the input from the European Commission's work on implementing the EU's Green Deal related to transport policies.

For the qualification of 'Climate Action" in transport the Bank follows its published methodology (https://www.eib.org/en/publications/climate-action-lending-eligibility-list.htm). Investments in all transport sectors can qualify when they contribute through mitigation or adaptation. In the Environmental and Social Data Sheet (ESDS) for each individual project, published on the EIB website, the Bank reports on the environmental and social impacts and benefits expected from every project it finances and states the conditions tied to its financial support.

However, the Bank's support for mobility projects is not limited to climate change mitigation; the support is part of the overall support to wider EU public policy goals, including the TEN-T policy, economic cohesion, safety, innovation, pollution control and climate resilience. The Bank adheres and will continue to adhere to the strictest environmental and social regulations and guidelines either when financing projects by itself or in cooperation with other lenders and International Financial Institutions.

The EIB acknowledges that there are significant investment needs to decarbonize transport. The EIB, as a public bank, will continue to support the urgent transition to zero and low-emission mobility across all transport modes. Through our work on the EIB Group Climate Bank Roadmap we are looking at identifying how to step up our climate ambition.

This may entail updating the Bank's current climate definitions in late 2020. This would be done in light of the expected EU delegated acts on the climate change mitigation and adaptation objectives under the EU Sustainable Finance Taxonomy, as well as any relevant adjustment following from a revision to the MDB harmonized principles for tracking climate mitigation. Given the timeline for agreement of the four other environmental objectives under the EU Taxonomy, the EIB Group intends to use interim definitions based on the principles established under the Taxonomy Regulation.

CONCLUDING REMARKS

The European Investment Bank has championed climate action already for quite some time. In 2019, EIB signatures for climate action stood at €19.3 billion, representing 31% of our total financing across all areas of activity, thus successfully meeting our target of devoting more than 25% of our financing each year to climate change mitigation and adaptation activities. The Climate Bank Roadmap is currently on the drawing board and work on this will help us refocus our efforts to boost climate lending still more. In the coming years, the Bank will strengthen its engagement in projects contributing to the decarbonisation and climate-resilience of industries and transport, climate-related innovation and energy efficiency.

Naturally, the EIB Group remains available for further exchanges with our stakeholders and welcome their critical comments and constructive feedback. We would also like to propose a more in-depth conversation with Counter Balance over the phone in the coming weeks, to better understand and to address its concerns related to the EIB Group's ambition as the EU Climate Bank and the related risk of greenwashing.

Yours sincerely,
EUROPEAN INVESTMENT BANK

ABOUT COUNTER BALANCE

Counter Balance is a coalition of 9 NGOs whose mission is to make European public finance a key driver of the transition towards socially and environmentally sustainable and equitable societies. Over the last decade, we have monitored extensively the operations of the EIB and led campaigns to make it a more sustainable, democratic and transparent institution.

More information is available at:
http://www.counter-balance.org/

(COVER VISUAL FROM https://designbycosmic.com/)

This report has been produced with the financial assistance of the European Union, the Polden-Puckham Charitable Fund, the European Climate Foundation, the Minor Foundation for Major Challenges and the Open Society Initiative. The contents of this briefing are the sole responsibility of Counter Balance and can under no circumstances be regarded as reflecting the position of the European Union, the Polden-Puckham Charitable Fund, the European Climate Foundation, the Minor Foundation for Major Challenges or the Open Society Initiative.