

EUROPEAN INVESTMENT BANK'S NEW ENERGY POLICY: STEPPING CLOSER TO A FOSSIL FREE PUBLIC FINANCE

Counter Balance
Challenging Public Investment Banks

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Thanks to a large-scale mobilisation, including an international NGO campaign coordinated by Counter Balance, to make the European Investment Bank (EIB) divest from fossil fuels, the EIB approved its new Energy Lending Policy (ELP) on November 14, 2019.

Energy efficiency and renewable energy are being put forward as central concepts, however the most striking measure the EIB wants to take is the **elimination of investments in fossil fuels in the EIB portfolio by the end of 2021**. There are exemptions however, mainly when it comes to gas, particularly so-called 'low carbon gas'.

The policy sets four priorities that must help reinforce the EIB's alignment to the Paris Climate Agreement goals. These priorities must also help the bank provide a better contribution to the overall goal of a carbon neutral European Union by 2050 the latest.

NEW PRIORITIES FOR THE EIB IN THE ENERGY SECTOR

>> **UNLOCKING ENERGY EFFICIENCY**
>> **DECARBONIZING THE ENERGY SUPPLY**
>> **SUPPORTING INNOVATIVE TECHNOLOGIES AND NEW TYPES OF ENERGY INFRASTRUCTURE**
>> **SECURING THE ENABLING INFRASTRUCTURE**

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 EU Member States. The bank is the biggest multilateral financial institution in the world. In 2018 alone, the EIB Group invested a total of €64.2 billion in a wide variety of projects.

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The new policy puts climate considerations at its core by recognising key developments in climate science and the European climate policy. For example, a starting point for the energy policy is that the goal of net-zero emissions is a prerequisite if we want to stay within the 1.5°C threshold of global warming.

Furthermore, the bank acknowledged the 'energy efficiency first'-principle, and the role that distributed and community-generated energy must play in the energy mix.
The final, but not least important aspect is the focus on the required support for those negatively affected by this energy transition.

But the main issue at stake with the review of the EIB energy policy was the eligibility of fossil fuels for future EIB operations. Here, the decision to end support to the sector by end of 2021 could be a gamechanger for the entire public finance sector and have a snowball-effect on other financial institutions. Despite the strong internal resistance to a gas phase-out, the outcome of this policy process is a positive signal for the transformation of the EIB into the "EU's Climate Bank".

CLIMATE COMMITMENTS BY THE EIB TO BECOME THE "EU CLIMATE BANK"

The adoption of the Energy Lending Policy took place in a specific context: the EIB trying to frame itself as the "EU Climate Bank". In November 2019, alongside the approval of the ELP, the bank's Directors approved the following objectives for the EIB:

>> aim to support *€1 trillion of investments in climate action and environmental sustainability from 2021 to 2030*
>> gradually *increase the share of its financing dedicated to climate action and environmental sustainability to reach 50% of its operations in 2025* and from then on
>> align *all its financing activities with the principles and goals of the Paris Agreement* by the end of 2020

THE GOOD

THE EIB COMMITS TO ENDING SUPPORT FOR FOSSIL FUELS BY END OF 2021

The commitment of the EIB to *'phase out support to energy projects reliant on unabated fossil fuels'* by the end of 2021 is a historic step forward for the bank. It places the bank at the forefront of International Financial Institutions on this matter.

It is also the most important step taken by the EIB with regards to climate since it established its Emissions Performance Standard (EPS) in 2013 to rule out direct support for coal power plants.

ENERGY EFFICIENCY & RENEWABLE ENERGY ARE THE PRIORITY

The EIB has **increased its financing limit for renewable energy and energy efficiency to 75% of investment costs for all countries**, as long as the projects provide a high policy value and the involvement of the bank accelerates the implementation of the project in question. Furthermore, a joint initiative with the European Commission – The European Initiative for Building Renovation – is to be created.

The bank stated that it *'will give high priority to projects that will enable the integration of renewables and infrastructure that will be needed to support the development of electromobility and of decentralized flexibility sources connected to distribution networks. The Bank will support the development of energy communities and microgrids, enabling investment in new types of energy infrastructure, including in small isolated systems. This may include, in particular, projects increasing the degree of automation, digitalisation and "smartness" of power systems.'*

INCREASING THE EIB'S CONTRIBUTION TO A JUST ENERGY TRANSITION

An **Energy Transition Package** will be officially created by the EIB to provide extra support for Member States in regions that have a more challenging path towards an energy transition. This is a big step forward for the bank to reinforce its action in support of a just transition.

Right now, it is however only substantiated by two concrete measures:
>> The EIB can finance up to 75% of the cost of a project instead of the usual 50%
>> The EIB would mobilise further technical assistance to help develop new projects

Despite these measures, this package needs to be reinforced if it is to truly make a difference in pursuit of an energy transition. In parallel, the EIB commits to work with the European Commission on a **Just Transition Initiative** that will unlock financing and expertise under the European Green Deal.

FINANCIAL INTERMEDIARIES ARE COVERED BY THE POLICY

The ELP explicitly states that it will cover all EIB activities in the energy sector, including for intermediated operations via **financial intermediaries**. *'The Energy Lending Policy covers all EIB activity in the energy sector – namely financial support, advisory services and technical assistance, regardless of the channel of support. In other words, this policy applies not only to direct investment loans but also to all intermediated operations of the Bank, including those carried out through commercial banks and investment funds.'*

This is an important provision that needs to be put into practice via the review of the EIB's climate strategy and its future standard on financial intermediaries. It will enable the bank to ensure coherence in supporting its objectives by exerting more control on the intermediaries (commercial banks, investment funds) that it finances in order to ensure they do not finance fossil fuels projects through the back door.

THE BAD

TWO YEAR GAS BONANZA INCOMING?

We can expect a massive push for new gas projects by the end of 2021. Since the end of 2021 deadline only applies for the approval of projects, the EIB is likely to sign and disburse loans the following years, particularly during 2022 and 2023. In addition, during this period, the Bank can approve gas infrastructure projects included under the 4th list of Projects of Common Interest and co-financed with the EU budget (namely the European Connecting Facility).

According to the EIB, there are currently 9 loans for €2 billion already approved. These loans are awaiting loan signature and then disbursement. In addition, 18 projects are under appraisal for a total of €1.3 billion. The EIB has also been approached for 18 other projects (worth €2.6 billion) for which the Management Committee must authorize the start of appraisal process. It is unlikely that all these projects are ultimately financed, however it is emblematic of the threat these projects still pose.

LOW-CARBON GAS: THE BACKDOOR FOR DANGEROUS GAS?

The EIB stated that it will *'support the development of* **low-carbon fuel projects**, *and the infrastructure needed to integrate* **low carbon gases** *into existing gas infrastructure. The Bank 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 exception is problematic because both the benefit for the climate and the economic potential of these gases is uncertain. There is also no accepted definition or a set of criteria to identify what gas is classified as low-carbon and what isn't considered low-carbon. Considerable risks remain from the use of many of these gases e.g. methane leakage, high energy requirements in production.

Currently, the bank proposes no mechanism to ensure that these risks are recognized and mitigated. Our assessment is that this is a high-risk climate strategy to sign a blank cheque on the future promises of operational CCS and low carbon fuels - which may never materialise.

It will be crucial to close this loophole when the ELP is revised in 2022.

NEW EMISSIONS PERFORMANCE STANDARD COULD ENABLE SUPPORT FOR GAS PLANTS

The EIB set its new Emissions Performance Standard (EPS) at a level of 250g CO2 per kWh. Our recommendation was to lower this threshold to 100g CO2 per kWh, in line with the consensus of the EU Technical Expert Group on sustainable finance for the EU ("EU taxonomy"). We need to take into consideration that the threshold of 100g CO2 per kWh is still extremely high for renewables as they tend to achieve numbers far lower than that.

This means that power generation projects can only be financed if they result in greenhouse gas (GHG) emissions below 250g CO2 per kWh, averaged over the lifetime for gas-fired power plants seeking to integrate low carbon or renewable gas, such as hydrogen, synthetic methane or biogas. This is essentially an open door to support conventional fossil gas plants and plants accompanied by carbon capture and storage (CCS).

NUCLEAR ENERGY IS STILL ELIGIBLE

As per the previous energy policy of the EIB, nuclear energy still remains eligible for support. In the last decade the bank has not financed many projects in this sector due to the financial risks linked to nuclear projects. More often than not, the initial costs spiral out of control as projects develop.

Despite this, the EIB stated that the following text from 2013 remains valid: *'Nuclear energy projects shall be eligible for EIB financing, provided that they are technically, environmentally, financially and economically justified taking into account lifetime costs associated with the projects and have received the positive opinion of Euratom under Articles 41-43. Eligible projects include power generation, full fuel cycle, waste management, safety upgrade, life time extension, decommissioning and R&D.'*

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THE WAY FORWARD

If the EIB is really to become the "EU Climate Bank", it is of utmost importance that all its operations and its sectoral portfolio are aligned with the Paris Agreement objectives.

What needs to happen is not just an increase of climate-friendly investments, but the mainstreaming of climate considerations throughout all EIB operations, especially in the economic and financial appraisal of EIB projects.

In 2020, there will be a window of opportunity to push for more change at the European Investment Bank:

>> The bank will develop "pathways" to align its operations with the Paris Agreement and will update its climate strategy. A public consultation should be opened on the matter.

>> The environmental and social standards of the EIB will also be revised via a public consultation process opened to all relevant stakeholders.

>> Another key sectoral policy should be revised: the EIB's Transport Policy – an area where the bank finances numerous dirty and carbon-intensive projects.

FOSSIL FREE EIB CAMPAIGN



The "Fossil Free EIB" campaign is organized jointly by various 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.



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