Counter Balance
Challenging the European Investment Bank

THE good, THE bad and THE uncertain: The new energy policies of Europe's Public Banks

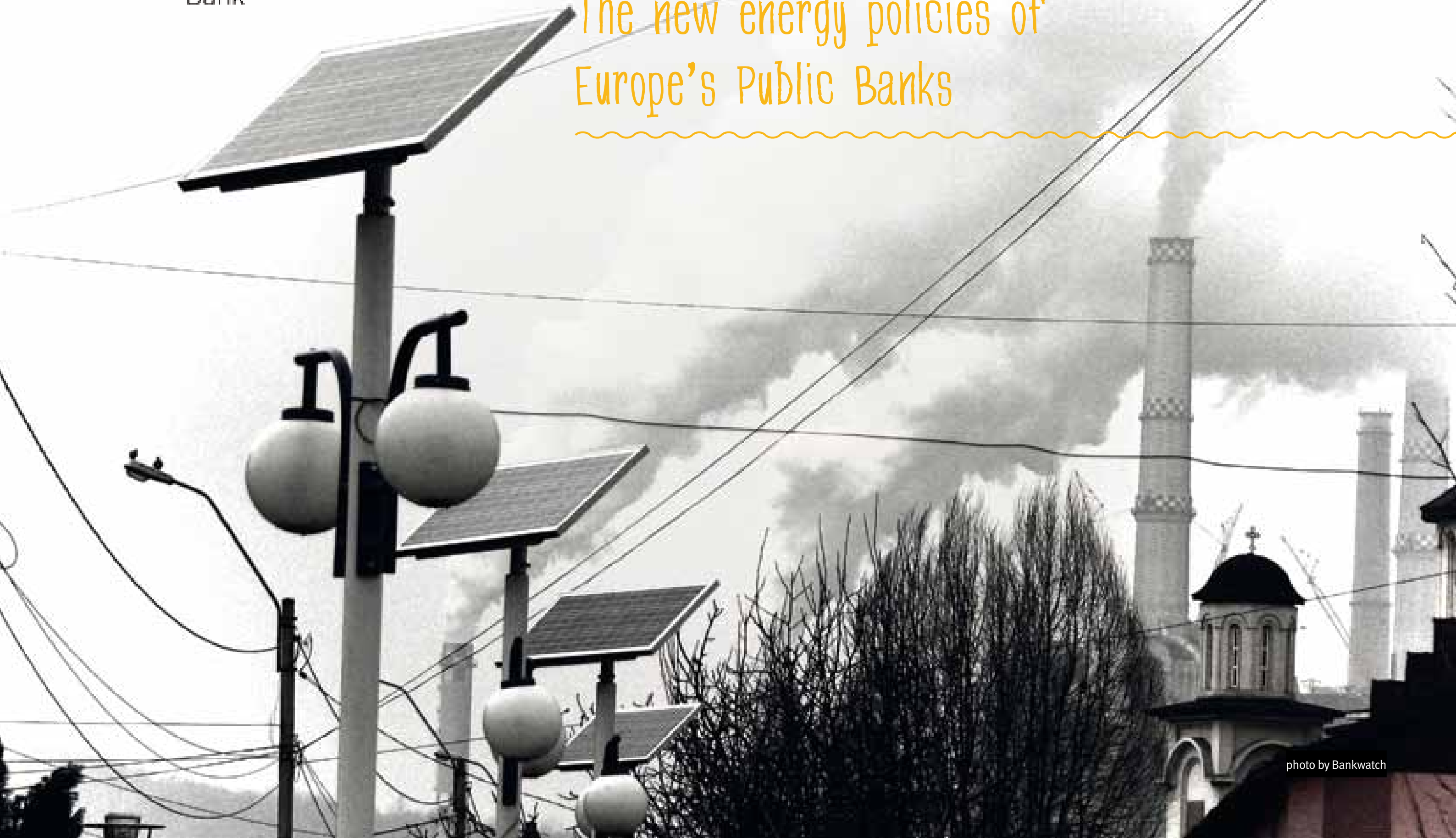


photo by Bankwatch

FIVE MINUTES BEFORE MIDNIGHT

The climate change threat intensified in 2013 with the latest United Nations climate report issuing yet more stark warnings of the inevitability of a 2°C rise in global temperatures by the end of the century. Reflecting on the urgent governmental and financial action required, the report's authors warned **we are now at "five minutes before midnight".**

The year also saw almost simultaneous reviews to the energy lending policies of several international public development banks – the World Bank, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), three institutions that since 1994 have collectively provided 37.5 billion dollars in financing to the coal industry, along with additional multi-billion dollar support to the oil and gas sectors.

This fact sheet provides an overview of the 'Good', the 'Bad' and the 'Uncertain' energy policy developments that emerged and are now in force at Europe's two major public banks – the EIB and the EBRD.

"I am particularly keen to see ... the EIB, the EBRD, and the World Bank ... take a lead role in eliminating public support for fossil fuels."

Connie Hedegaard,
European Commissioner
for Climate Action,
April 2013.

image by Bankwatch

Investment Climate Changing - background to the EIB and EBRD energy reviews

The reviews of the EIB and EBRD's respective energy policies, documents that will guide the banks' multi-billion euro energy lending over the next four to six years (a crucial period if we are to start to properly address the climate challenge), took place amidst mounting concern over the continuing gap between dirty and clean energy financing. Also influencing the policy debate, however, were some significant global investment announcements signalling that support for fossil fuels is starting – finally – to wane.

According to the International Energy Agency, fossil fuel subsidies rose by almost 30%, to $523 billion, in 2011. At the same time, the UN Environment Program warned that global investment in renewable energy totalled only $257 billion in 2011. Echoing this general pattern, while the EIB and the EBRD have both been increasing their renewable energy and energy efficiency investments in recent years, these strides forward have been undermined by deep, consistent support within their energy portfolios for oil, gas and coal sector projects.

This international public bank support for climate killing fossil fuels ensures that such projects receive a clean bill of financial health – private investment can, and very often does, follow the lead of the public banks, in fact usually providing substantially more project finance. The stimulus, therefore, that public banks provide has to be stamped out when we consider that climate change projections insist on a 50-70% cut in global emissions by 2050, as well as leaving 80% of declared fossil fuel reserves in the ground.

Change, though, was in the air in 2013, centering most notably on a growing number of global commitments to cease public financial support for coal-fired power plants. Ahead of the finalisation of the EIB and EBRD policy reviews, various 'coal breakthroughs' took place. US president Obama announced an end to US taxpayer support for overseas coal plants, a commitment shared by five Nordic countries and – later in the year – by the UK. Welcome moves in themselves, and signalling new found governmental commitment to real climate action, the announcements pointed also to a real moment of opportunity vis-a-vis the energy lending of the public banks, as these same countries have shareholding and voting power within the EIB and the EBRD.

And, too, in the World Bank, where the US wields major influence. After many years of expectation, the World Bank duly announced in July 2013 that it would be restricting funding for new coal plants in developing countries (except “in rare circumstances”). The scene was set for the EIB and the EBRD to follow suit, and perhaps do better.

the Good

In their finally approved energy policies, both the EIB and the EBRD committed to restrict future financing of coal-fired power plants, but in different ways that see the EIB forging a more progressive, accountable and climate-friendly path.

While it will still be possible under the **new EIB energy policy** for a proposed fossil fuel power plant project on a small island with no feasible mainland energy connection to be financed by the EIB, the overwhelming EIB trend in terms of power generation is positive: the new EIB energy policy practically eliminates financing to the most carbon intensive power generation projects.

Key to this step forward by the EIB is a new 'carbon intensity' metric – the Emissions Performance Standard (EPS) will be applied to fossil fuel generation projects and will rule out EIB investments when carbon emissions exceed 550g of CO_2 per kWh. This means in practice that most coal power plants can no longer be financially supported by the EIB, unless they co-fire at least 25 percent biomass or are high efficient co-generation installations. This 550g/kWh limit laid down in the EPS means effectively that the EIB will only be able to finance natural gas fired plants, and there is the prospect of this standard being strengthened in 2014 when the EU may drop the limit to 350g/kWh to reflect best in class gas plants.

The EBRD's new energy policy also sees it restricting coal finance, with a commitment not to finance any new coal-fired power plants "except in rare circumstances, where there are no economically feasible alternative energy sources." No EPS has been introduced by the EBRD, and a short list of criteria will decide whether the bank extends funding support at both new and existing coal plants, including: is the plant the least carbon-intensive of realistically available options?

Both banks' new approaches to coal plants would – on paper – rule out their involvement in controversial projects such as the Šoštanj lignite power plant in Slovenia (both recently invested over 600 million euros in Šoštanj), and a forthcoming investment decision for a major lignite power plant in Kosovo will be an important indicator of the robustness and ambition of the EBRD's new approach to coal.

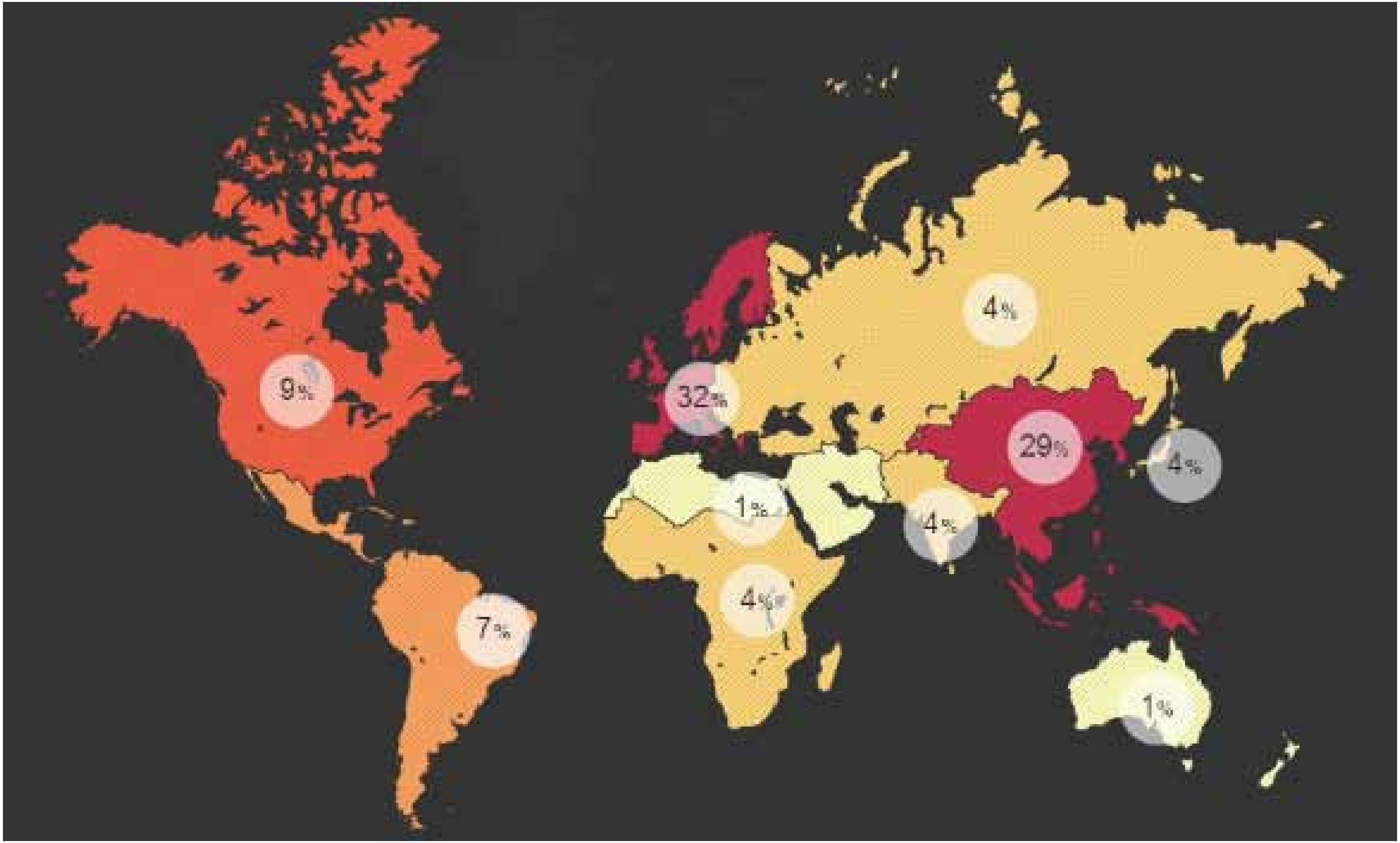
The new EIB policy also puts an expanded emphasis on energy efficiency. Where previously EIB funding for energy saving schemes was aimed at technical assistance on smaller projects, new energy lending criteria will allow the EIB to start extending loans directly to bigger regional and national efficiency initiatives.

the Bad

Significant progress on coal lending by the EIB and the EBRD in their new energy policies should not disguise the fact that both remain committed to providing support to the fossil fuel industries. The policies may be presented with buzz terms such as 'supporting low carbon transition' very much to the fore but, for example, financing for major oil and gas pipelines and associated infrastructure is set to continue in Europe and beyond. A range of operational details in the EBRD policy suggest how wedded to fossil fuels the bank will continue to be – under a positive sounding section entitled 'Rethinking energy systems', the practice of enhanced oil recovery (ie, pumping water or CO_2 into wells to get more oil out of them) and other 'best practices in the hydrocarbon sector' remain on the EBRD's lending radar.

Hydropower projects involving dams of all sizes, including 'large' dams over 10 megawatts, will continue to be supported by both the EIB and the EBRD. Not only do large dams, including those financed by the two banks in recent years, have major negative environmental and social impacts, but the banks will also continue to categorise such projects as renewable energy investments. This is a highly problematic definition of renewable energy due to the high levels of greenhouse gases (notably methane and nitrous oxide) emitted by large dam reservoirs.

From the third international fact-finding mission to the BTC pipeline. The purpose of the mission was to investigate areas of environmental and social concern in relation to the pipeline crossing Azerbaijan, Georgia, and Turkey.



A map from the Climate Policy Initiative shows that central and eastern Europe, Central Asia and the Southern Mediterranean receive the smallest share of global climate finance at only about 5 percent in total. These are the EBRD's specific focus regions and the EIB is also active in them – the climate finance challenge is huge. *Source: http://www.climatefinancelandscape.org/map/*

the Uncertain

Both the EIB and the EBRD have refused to rule out future funding support for **shale gas projects** in spite of major question marks over the financial viability of shale gas development and a wide range of potentially calamitous impacts for communities and the environment linked to shale gas extraction.

A number of national level bans on shale gas development currently exist across Europe, but governments in countries such as Poland, Romania, the UK and Ukraine appear convinced by this unconventional fuel. Involvement by the banks in a further fossil fuel sector would be yet another brake on their clean energy ambitions and also be highly controversial given the strong public concerns about shale gas already being witnessed across Europe.

Both banks will continue to finance projects in the **nuclear sector**. In theory the EIB would consider funding for almost any nuclear industry project, provided they meet certain standards and have been approved by the Euratom agency. However, the bank has refrained to do so in recent years. The EBRD remains committed to not provide finance for new nuclear power plants, but will continue to consider funding for safety improvements at operating plants as well as for radioactive waste management and the decommissioning of nuclear facilities. This approach has been criticised by campaigners who say that via such lending the EBRD does in fact provide vital funding for the industry that has lead to new reactors being built or old ones being extended beyond their intended lifetime.

Further reading

- Comprehensive overview of the EIB energy policy review, including the new policy and stakeholder comments
www.eib.org/about/partners/cso/consultations/item/public-consultation-on-eibs-energy-lending-policy.htm

- Counter Balance's comments and concerns about EIB energy lending, submitted during the policy review in 2013
http://www.eib.org/attachments/consultations/elp_comments_counter_balance_20130624_en.pdf

- The new EBRD energy strategy
http://www.ebrd.com/downloads/policies/sector/energy-sector-strategy.pdf

- Sounding out the EBRD's energy strategy: little ambition besides scrapping coal – Bankwatch
http://bankwatch.org/news-media/blog/sounding-out-ebrds-energy-strategy-little-ambition-besides-scrapping-coal

Environmental campaigners from the western Balkans appeal to the EBRD to clean up its act during public consultations for the bank's new energy policy - photo by Bankwatch

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