



Response to Consultation Paper on EIB's approach to supporting climate action

Counter Balance, CEE Bankwatch Network – March 2015

A critical assessment of the EIB's role in climate finance and financialisation of nature

Counter Balance is a European coalition of development and environmental non-governmental organisations (NGOs) with extensive experience working on development finance and the international financial institutions (IFIs) as well as campaigning to prevent negative impacts resulting from major infrastructure projects. Since 2007 and together with our 9 member groups and partners, we have monitored the involvement of the EIB in so-called climate action through innovative financial instruments such as carbon funds, private equity funds and more recently schemes aimed at promoting natural capital.

This collective contribution of our coalition is a response to EIB's call for public views around their support for climate action. We explicitly focus on the *"Theme 4: How can the Bank most effectively support additional private sector investment in low carbon, resource-efficient, climate resilient technologies? What sort of financing structures should be supported to best catalyse private sector finance? Is the current EIB product portfolio appropriate to meet climate finance needs? How can the Bank best employ the joint Commission-EIB blending facilities, innovative instruments and advisory services in support of climate action projects?"*. We have strong doubts about EIB's role in "innovative instruments" that actually contribute to the dangerous trend of "Financialisation of Nature" and transfer infrastructure into asset classes.

Since its capital increase in 2013, the EIB has been lending more than 70bn Euros annually in Europe. However, the bank is still lacking a fully-fledged Climate Policy. It is time for the EIB to adopt an ambitious policy and finance projects that increase our resilience in front of climate change, resource scarcity and economic shocks. In the view of the signatories, this public consultation on EIB's approach to supporting climate action should lead the EU bank to reconsider its involvement in various financial schemes under the heading of climate action and to fully align its practices with the EU climate objectives at the horizon 2030 and 2050 leading to a decarbonized economy.

1/ The EIB and its involvement in carbon funds

Over the last few years civil society has paid much attention to the urgent need to scale up financing for climate action, both in terms of mitigation of and adaptation to climate change. This issue has also become central to European governments and their financial institutions in terms of meeting developing countries' urgent need to cope with climate change challenges. Most of the action undertaken so far has focused on the implementation of market-based mechanisms aimed at leveraging private financial resources, as well as on the identification of sectors and activities to which to allocate those funds.

So-called "carbon finance" – assuming that generating carbon credits and related financial assets exchangeable on open markets will move the private sector to meet reduction objectives – has become predominant within the field of climate finance. The current trend is to make the business of environmental protection highly profitable for few investors by allowing the existing extractivist and fossil-fuel development model to continue unchanged, therefore severely impacting the local environment and the

livelihoods on which most of world population and the poor depend.. Carbon finance has attracted fierce criticism from several civil society groups, within the wider critique directed at a market-based “green economy” whose objective is to financialise nature. The “Scrap the ETS campaign”¹ brought together 137 international and European NGOs opposing the fixing of the EU Emissions Trading Scheme (ETS) due to its structural failures.

The ETS has failed to reduce industrial greenhouse gas emissions cost-effectively by creating incentives for climate-friendly innovations and so move industry onto a low-carbon path. The EU’s fixation on ‘price’ as a driver for change contributed locking in an economic system dependent on polluting extractive industries – with fossil fuel emissions increasing sharply in 2010 and 2011². Despite the severe difficulties faced by the EU Emission Trading System since the end of 2012, and despite the fact that carbon markets in Europe are basically falling apart (with very low carbon prices and investors leaving this sub-sector), European governments and institutions are determined to push for the international community to adopt new market-based mechanisms for climate action in the run-up to the next climate negotiations in Paris in 2015.

In this context, the EIB is active on the carbon market, through direct management of several carbon funds and a portfolio of € 589 million in 2011 which has kept on increasing over the years³ and through a specific fund for the purchase of post 2012 carbon offsets generated from CDM projects aimed at adding price certainty to investors' Post 2012 emissions portfolio⁴.

Our report “Banking on carbon markets” showed in 2012 that the bank does not disclose neither a full list of supported projects nor the volumes of finance involved. However, from occasional references, some examples can be identified. Via its carbon funds, the EIB has been financing controversial operations like:

- Gas flaring reduction in the oil industry in Siberia⁵. This represents a classic example of a dirty, polluting industry (that ruins the livelihoods of indigenous peoples and local ecosystems and economies) receiving carbon credits for marginal reductions in its unacceptable practices. Similar payments have been made to companies operating highly controversial oil-extraction operations in Nigeria⁶.
- Fossil-fuel switching from shale oil, mazut and coal to natural gas. Switching from one fossil fuel to an (arguably) marginally less dirty one is a contentious use of climate-change funding.
- Funding for landfill gas — that is, waste-to-energy projects — accounts for 12 per cent of the EIB’s carbon fund portfolio.
- The EIB has bought offsets from large hydropower projects associated with numerous harmful environmental and social impacts such as the Ruzizi project in Rwanda, the Bujagali dam in Uganda and Hunan Taoyuan Hui renxi Hydropower Project in China. Extensive literature around the disastrous impacts on dams is currently available⁷.
- Increasingly, offset credits may be sourced from broader ecosystem functions (biodiversity, soil, water etc). Under the CDM, land is being used and communities are being forcefully removed in order to make way for monoculture tree plantations. There is a risk of widespread land grabbing through the CDM and similar offset mechanisms for projects that require large, preferably unpopulated areas of land such as industrial tree plantations and biofuels in Africa. There are proposals on the table at the UN climate talks to

¹ <http://scrap-the-euets.makenoise.org/KV/declaration-scrap-ets-english/>

² UNEP (2012) The Emissions Gap Report, www.unep.org/pdf/2012gapreport.pdf

³ Counter Balance (2011), Banking on Carbon Markets. <http://www.counter-balance.org/banking-on-carbon-markets/>

⁴ <http://www.eib.org/about/press/2009/2009-096-post-2012-carbon-credit-fund.htm>

⁵ World Bank, 2011, Russian Federation: Rosneft Associated Gas Recovery Project for the Komsomolskoye Oil Field (CFE), accessed 25 July 2011, <http://wbcarbonfinance.org/Router.cfm?Page=CFE&FID=30444&ItemID=30444&ft=Projects&ProjID=47068>

⁶ Heinrich Boll Foundation, 2009, Energy Futures? ENI’s investments in tar sands and palm oil in the Congo Basin, November 2009, http://www.foeeurope.org/corporates/Extractives/Energy_Futures_eng.pdf

⁷ <http://www.wwf.eu/?207987/7-sins-of-dams>

widen the range of projects that are eligible for CDM funding and this includes GM crops, biochar, and soils, as greenhouse gas sequestration projects⁸.

Of great concern to the signatories are also moves by the EIB to extend its activities into forest carbon trading. Forest carbon offsetting suffers from all the weaknesses and illogicalities of other carbon trades⁹, and in addition has some particular issues of its own¹⁰:

- Carbon trading presumes, falsely, an equivalence between fossil carbon released from permanent storage underground, and biosphere carbon stored temporarily in standing timber;
- The use of forest offsets is yet another demand by the global North on the productive lands of the South;
- Carbon offsets tend to fund mega-plantations that have well-documented negative impacts on forests and forest peoples;
- Halting forest loss requires action against the underlying causes of deforestation. Linking forest protection and reforestation with increased fossil-fuel-emitting activities and with more monoculture tree plantations is a dead end for the climate, for forests and forest peoples;
- Measuring the carbon flows in forests is fraught with uncertainties. Levels of accuracy required for a carbon trading scheme, where forest offsets are treated as equal to fossil carbon emissions, are virtually impossible to achieve.

Despite mounting evidence about the unsuitability of carbon trading as a financing instrument for reducing forest loss¹¹, the architects behind global REDD discussions continue to strongly favour a forest-carbon trading scheme¹². Meanwhile a parallel forest-carbon market has emerged through voluntary offsetting, bilateral intergovernmental contracts and other interim agreements¹³. UN climate decisions also suggest that REDD+ finance will be used to finance monoculture tree plantations (storing as little as 20% of the carbon stored in natural forests that they replace)¹⁴; to finance tree plantations on agricultural lands; and will reward dirty-energy and logging companies for marginal improvements in their damaging practices. The EIB is not waiting for UN negotiations on crucial financing decisions pertaining to REDD to conclude, but is already laying the ground for forest carbon offset projects.

- *A case in point: the Althelia Fund*

As documented by a recent Counter Balance report¹⁵, the EIB is at the forefront of carbon market development through its support for REDD+ via the Althelia Climate Fund. Given the impact associated with REDD and REDD+ projects, as described above, EIB support for REDD+ through Althelia is an example of the lack of policy coherence between European development policy and the goals that the Bank claims to abide to, and the actual practice of the Bank. The EIB decision to invest in Althelia also represents a contradiction between EU climate policy and the Bank's role in climate action. As a matter of fact, the EU excluded forest carbon credits until at least 2020 in its Emission Trading Scheme Directive adopted in December 2008. This

⁸ African Biodiversity Network et al, 2011, The CDM and Africa: Marketing a new land grab, http://www.africanbiodiversity.org/system/files/PDFs/CDM%20Report_Feb2011_lowres.pdf

⁹ FERN, 2010, Trading carbon.

¹⁰ The Munden Project, 2011, REDD AND FOREST CARBON: Market-Based Critique and Recommendations, www.mundenproject.com/forestcarbonreport2.pdf

¹¹ Nine reasons why REDD is a false solution: Friends of the Earth International, <http://www.redd-monitor.org/2014/10/15/nine-reasons-why-redd-is-a-false-solution-friends-of-the-earth-international/>

¹² <http://www.fern.org/carbonmarketswillnotdeliver>

¹³ FoEI, 2010, REDD: the realities in black and white, Friends of the Earth International, <http://www.foei.org/en/resources/publications/pdfs/2010/reddthe-realities-in-black-and-white>

¹⁴ Palin et al. (1999). Carbon Sequestration and trace gas emissions in slash-and-burn and alternative land uses in the humid tropics, Palin et al., ASB Climate

ChangeWorking Group, CGIAR, Final Report, Phase II, www.asb.cgiar.org/pdfwebdocs/Climate%20Change%20WG%20reports/Climate%20Change%20WG%20report.pdf

¹⁵ Counter Balance and Re: Common (2014), Banking on forests: The European Investment Bank's belief in financial alchemy to fix the climate crisis: The case of the Althelia Climate Fund http://www.counter-balance.org/wp-content/uploads/2014/12/1415112543wprm_briefing-banking-on-forests.pdf

decision took various interests into account, including criticism raised against REDD by some developing countries and affected local communities.

Analysis of the set-up of the Althelia Climate Fund and the modalities of the EIB's participation confirms the criticisms of the Bank's previous engagement in other carbon funds already voiced by organised civil society. Indeed, the fund's establishment, operation and project definition is fully delegated to fund managers, with little direction coming from the Bank. In short the EIB fully relies on the expertise of carbon managers, without considering the possibility of a different approach to climate finance, possibly managed in-house, other than carbon markets.

From an investor perspective it is particularly concerning that it is still unclear what will be the overall economic return from Althelia's investments, given losses occurred so far and the difficulties faced in identifying REDD projects to invest in and consequent delays in the financial closure of different investment stages. Without any doubt only thanks to the financial guarantee from US AID Althelia managers managed to reach some financial closure with some investors and move their business on. This public intervention is a clear evidence that without some forms of public subsidies – whether through direct investment or guarantees – such a carbon finance instrument, planned to be a market-based mechanism, would not work.

Given this central role of public financing, the approach of the EIB to entirely outsource the management of its carbon funds raises doubts about the due diligence procedures performed by the Bank regarding the fund companies and managers who benefit from EIB investments. For instance, in the case of Althelia it remains unclear why the Bank allows complex and not fully transparent corporate structures to invest in the ultimate beneficiaries. Similarly the concrete oversight performed by the Bank's management is not detectable. Furthermore, the fact that carbon funds operate through jurisdictions where taxation is limited – as for a SICAV based in Luxemburg – raises further concerns for European citizens and taxpayers.

The determination of the EIB and European governments to rush and promote forest carbon funds through voluntary markets triggers the establishment of complicated and under-funded investment structures which ultimately adopt questionable inter-company lending schemes to sustain their business and pay costly consultancies and staff. The EIB approach to carbon finance with this new fund confirms broader problems which affect its use of financial intermediaries in its lending pattern both within and outside of the EU, including the use of private equity funds¹⁶.

- *Recommendations:*

The EIB should reconsider its involvement in market-based mechanisms as part of its climate action. So far the Bank's ideological bias in favour of market-based mechanisms has not allowed for an open-ended debate about what role, if any, the EU house bank should play in climate finance. Consequently REDD projects and offsetting mechanisms should not be part of the EIB climate policy, and the EIB should divest from the Althelia Climate Fund. We warn against including and using the carbon credits, since ETS and the use of Clean Development Mechanisms shows after several years of experience that they do not reduce emissions, but rather create new markets of off-sets that risk to create new bubbles without contributing to fighting climate change and helped big climate polluters to new sources of income.

The EIB should stop supporting emission trading schemes with the purpose of justifying new polluting projects - like coal power plants and incinerators - in the EU and in accession countries, for instance through the use of the NER 300 fund. The evidence of the past years shows that emission trading is about trading and not about reducing the emissions from specific facilities that will lock Europe in fossil fuels dependency for the decades to come. Thus the EIB should not invest in the creation of new market based mechanisms in natural resources areas. If emission trading is about trading, and not reducing emissions,

¹⁶ <http://www.counter-balance.org/new-counter-balance-report-hit-and-run-development-2/>

there is no legitimate reason for the EIB to invest in projects outside of the EU that do not contribute to achieving EU external action objectives as expressed in Article 21 of the Lisbon Treaty.

2/ Banking on natural capital: biodiversity and ecosystems

In the consultation meeting organized on 12th February, the EIB mentioned investments in natural capital and the newly created Natural Capital Finance Facility as a new area for its climate action. Increasingly, proponents of financial instruments argue that flexible financing is necessary in order to secure ample funding to address the climate and environmental crises. However, we take the opportunity of this public consultation to alert the bank that in this process towards building a so-called “green” economy, success becomes measured by profitability rather than the ability to protect or enhance “nature”.

- **The Natural Capital Finance Facility**

The Natural Capital Finance Facility (NCF) has been officially launched in February 2015¹⁷ by the European Commission and the EIB with a total budget of €125 million. The NCF pilot projects fall into four categories: payment for ecosystem services (PES), green infrastructure projects, biodiversity offsetting (BDO), and pro-biodiversity and adaptation investments.

Although the use of PES and BDO has been used for decades in several countries around the world, the EU has never had a unified policy on either system. While a legislation on the No Net Loss Initiative is still being debated at EU level and most respondents to the public consultation organized by the Commission opposed the establishment of a legislation on the issue, the EC and the EIB have gone ahead with their own plans to fund PES and BDO pilot projects without any democratic process in place. A recent report on the NCF¹⁸ made several findings on environmental and social losses in the areas of communitarian stewardship and care, transparency, control over public money and diversity of solutions.

- **No to biodiversity offsetting**

Given the EIB’s track record of investing in large-scale projects that have significant adverse impacts on local communities and the environment, the Bank should acknowledge that such impacts could be compensated for at best, but that suggesting they could be offset is misleading. Experience of compensatory approaches to maintaining biodiversity have shown that biodiversity offsetting (BO) faces considerable difficulties, many of them insurmountable due to financial, environmental, social and governance realities. In order for BO to be meaningful, it relies on strong governance¹⁹ and monitoring to independently adjudicate whether offsets are undermining environmental legislation, and whether they are achieving their goals. This is particularly important given the different governance situations across the EU. Although consultancies are looking into insurance to ensure there is a back up to non-delivery, however much money might be charged in liability, a failed offset will mean that biodiversity has been lost.

Averted loss offsets are the most problematic and are thus not the preferred option for offsets at the European level: *“in Europe such offsets may not be appropriate because in most circumstances they would have little additionality. More often offset benefits are likely to be more reliably achieved by enhancing or restoring habitats or species populations²⁰.”* The main problem is that they do not achieve no-net-loss, since no ‘additional’ biodiversity is being provided. To have any environmental integrity, ‘averted loss’ offsets must prove additionality, which is difficult if not impossible to do, and has caused a number of problems

¹⁷ <http://www.eib.org/infocentre/press/releases/all/2015/2015-031-new-european-support-to-address-climate-and-biodiversity-challenges.htm>

¹⁸ Carbon Trade Watch, Counter Balance and Re: Common, 2014, “The Natural Capital Financial Facility: A window into the “green” economy” <http://www.counter-balance.org/wp-content/uploads/2014/12/a-window-into-the-green-economy.pdf>.

¹⁹ <http://onlinelibrary.wiley.com/doi/10.1111/j.1755-263X.2009.00061.x/abstract>

²⁰ IEEP: Policy options for an EU no net loss initiative – Inception Report

with similar mechanisms such as REDD²¹. It relies on declining biodiversity, and as such has been described by scientists as ‘locking in’ biodiversity loss²².

One of the main problems with restoration offsets is that although creating the offset before the destruction of another area is theoretically possible, for reasons of cost and additionality, most offsets are created after the destruction has already taken place, making them somewhat of a gamble. Since biodiversity is a dynamic process, there are always significant risks that offsets will not achieve their intended aim (known as the ‘target condition’), meaning they are a ‘promise’ rather than a certainty. Though biologists disagree about how exactly to offset biodiversity²³, most often, what is being offset is a type of habitat that has the potential to gain the same biodiversity. The theory is that if you create a certain habitat, the relevant species will migrate there. This theory has however been challenged, with evidence that achieving target condition is by no means a certainty.

There are significant environmental queries over the ability to recreate habitats for plant, insect and animal species, with evidence showing that in the majority of cases, offsets do not ever reach the required target condition. One study in the USA that analysed evidence in the State of Ohio found that the majority of projects (67%) that restored or created wetlands were not successful at meeting permit requirements in terms of wetland area²⁴. This study found that many were not up to standard when checked against stringent scientific criteria. Indeed, against these measurements only three habitat banks scored in the “successful category,” while five passed in some areas and failed in others. More disturbing, none of the government agencies charged with oversight were taking the bank managers to task²⁵.

The question of what is being offset is essential, since biodiversity is difficult and expensive to measure, and it is hard to represent all biodiversity in an area. Though biodiversity offsetting implies ‘like-for-like’ replacement, in reality, examples from Germany show that this is very hard to do, and more often, developers will replace habitat with one of ‘similar’ quality²⁶. It shows that offsetting is often not possible, and should not be relied upon as a way to ensure environmental coherence.

Biodiversity offsetting does not attempt to offset the other values that nature provides, including the social (recreational, spiritual or cultural) values of nature. Neither does it include the engineering or economic values that nature provides to local communities, such as flood mitigation, groundwater recharge, and pollination etc. It divides nature from humans, proposes that it is possible displace one, without impacting the other. As one cultural geographer as commented, it “*entrenches this separation, thus retarding rather than facilitating the emergence of ecologically sustainable human settlements*”²⁷.

Though there are suggestions that offsets should be as local as possible, the reality is that this is very difficult since appropriate sites can often not be found locally and is often too expensive, since land that is close to communities is often more expensive than more remote areas. As one scientist, who has been analysing the social impact of offsetting comments: “*The whole point of wetland mitigation banking—what makes its economic incentives work—is that developers get to wipe out wetland patches in the higher-priced land markets and bankers get to establish wetland banks in the less-pricy land markets.*”²⁸

²¹ <http://www.cbc.ca/news/canada/british-columbia/story/2013/03/27/bc-carbon-neutral-report.html>

²² <http://theconversation.com/biodiversity-offsets-could-be-locking-in-species-decline-14177>

²³ http://ohvec.org/issues/mountaintop_removal/articles/myths_of_restoration.pdf

²⁴ Kettlewell, Bouchard, Porej, Micacchion, Mack, White and Fay. 2008. An assessment of wetland impacts and compensatory mitigation in the Cuyahoga River Watershed, Ohio, USA. Wetlands Volume 28, Number 1, 57-67, DOI: 10.1672/07-01.1

²⁵ Mack, JJ, and M. Micacchion. 2006. An ecological assessment of Ohio mitigation banks: vegetation, amphibians, hydrology and soils. Ohio EPA technical report WET/2006-1. Ohio Environmental Protection Agency, Division of Surface Water, Wetland Ecology Group, Columbus OH

²⁶ http://www.forest-trends.org/publication_details.php?publicationID=2404

²⁷ Sullivan and Hannis, ‘Offsetting nature’.

²⁸ See evidence that in the USA, wetland mitigation banking has resulted in the displacement of wetland from urban areas to rural areas: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=878331

In addition to social values of nature, biodiversity offsetting and particularly habitat banking does not take into account the impact of offsetting on landscapes, and the cultural heritage they provide. In this way, it directly goes against the Bank's own standards on the cultural heritage on landscapes from the EIB environmental and social handbook.

- Recommendations:

In conclusion, the Bank should put its emphasis on the avoidance of projects, and not rely on offsetting as a way of minimizing impact, since there is significant evidence to show that offsetting is far from being an environmental or social alternative to avoiding impact in the first place. We warn against the potential measuring of biodiversity /ecological value, as this valorization will be unable to take into account all parts constituting the real value of nature but seems to do it through some measurement with necessary shortcomings. The effect will be for one more and less "important" habitats, while as well the "less important" ones have great value, which simply might not have been measured. For two in combination with offsets there is a risk of "habitat banking" which is likely to have the same problems as carbon trading and won't help saving biodiversity. As a consequence, the EIB should not enter the new business of Payments for Ecosystem Services and Biodiversity Offsetting.

3/ The EIB and other innovative financial instruments to fight climate change

- The use of Climate Change Framework Loans and financial intermediaries

Next to loans for specific clean energy projects, the EIB has signed several similar Climate Change Framework Loans (CCFLs) with governments or financial intermediaries in other countries as well. Since 2007 the total amount dedicated to CCFLs reaches more than €2 billion, mostly disbursed to intermediaries in emerging countries and for substantial amounts of money per loan. The EIB provides its CCFLs through financial intermediaries, mostly private or public banks. Counter Balance member Both ENDS has investigated one of these CCFLs - the one managed by the Brazilian Development Bank BNDES - in great detail, identifying fundamental flaws in the approach of working with financial intermediaries²⁹.

Actually BNDES is failing to reach International Finance Institutions standards on safeguards, transparency, accountability and public participation, yet it is the major lender for the large scale infrastructure projects in the country. BNDES' recent portfolio includes multibillion loans to controversial mega dams like Belo Monte and Jirau, and meatpacking companies (which are unsustainable cattle tenure in the Amazon forest, sugarcane plantations in indigenous areas and paper and pulp factories leading to conflicts over land). The unsustainability of proceeding with the growth model promoted by BNDES, which capitalizes on Brazil's natural resources and fails to create high value jobs in the processing industries, is denounced by civil society organisations in Brazil. Moreover, looking at the types of operations BNDES finances, it is immediately clear that in its current set-up the institution is the wrong agent to promote sustainable development of any sort. For instance, BNDES is a major financial supporter of Petrobras. Moreover, one of the projects BNDES is currently supporting is the highly controversial Belo Monte dam in the Amazon, where adequate environmental impact assessments and mitigation plans are lacking and where Free Prior and Informed Consent of affected Indigenous peoples has not been obtained. This runs against European principles and those of the EIB. Indeed, investing in a CCFL managed by BNDES contributes to freeing up resources for BNDES to continue investing in large dams and polluting industries.

Climate finance lending should not have been envisaged with a financial intermediary with such an unsustainable portfolio as BNDES. The same goes for private equity funds – often associated with increasingly opaque money flows - which are expanding risks such as corruption and the wrong people profiting from funds in which the EIB invested. The contribution of EIB-backed climate infrastructure funds

²⁹ http://www.bothends.org/uploaded_files/document/1Both_ENDS_Policy_Note_BNDES.pdf

and private equity funds is currently primarily defined by the EIB in financial terms. However, the catalytic effect of those funds in the form of additional investments says little about the quality of the projects supported and their environmental impacts. At the time being, the EIB discloses limited information on those impacts and focuses instead on the multiplier effect derived from the investments in those funds.

Given the fact that, according to the EIB consultation paper “the [GHG emissions] methodology is not applied to intermediated loans, which equates to almost one-third of the Bank’s lending in recent years”, the use of financial intermediaries should not be part of the climate action portfolio of the EIB. In this context, we recommend the EIB to develop a methodology to assess such impact by the end of 2016.

- *The leading role of the EIB in Project Bonds*

In a recent briefing developed with its member group ODG, Counter Balance alerted around the structural weaknesses of the Project Bond Initiative³⁰.

Far from being an innovative solution to project financing in tough budgetary conditions, the initiative covers familiar territory –the use of EU funds as a risk-sharing mechanism to attract funds from the private sector. If we imagine a piece of public-private infrastructure that does not perform well in the future (either due to incorrect calculations of the project’s capacity to repay itself or incorrect calculations relating to its future usefulness), then a debt is incurred which has the potential to fall back on the public in the future. Herein lies the problem: by treating infrastructure as an asset class (as an anonymous product traded on the financial markets with shares changing hands between investors who are not bound to the construction itself) and using public funds to attract the private sector, the population becomes vulnerable to the changing winds of the market and future energy needs. Whereas in the past infrastructure was conceived as an essential service for the population, the investors’ necessity for returns on infrastructure investments requires a constant stream of profit, which trumps the real needs of the population. The increased financialisation of infrastructure is characteristic of the shift from public decision making regarding the control of key infrastructure to decisions made at private board meetings and relayed at annual AGMs. With infrastructure so critical to the everyday life of the population, it is hard to see how side-lining the public’s role in the management of infrastructure could be beneficial at all for European citizens.

One of the stated objectives of the Project Bond Initiative is to “establish tradable infrastructure project bonds that will enable investors to invest in Infrastructure as an asset class.”³¹ In this context the EC and the EIB are attempting to create a Pan-European market for EU project bonds, yet there is growing sentiment from the private sector that the moment has passed for credit support mechanisms and that their post-financial crisis proliferation now threatens to crowd out private capital from the market.³² If proved true, this would substantially hollow out the EIB’s case for increasing the size of the PBI as the EIB is prevented from extending support which undermines existing markets.

Questions abounded when the Castor project was announced as the first pilot project under the initiative. Indeed, downward revisions to the growth in gas consumption across Europe³³ placed the necessity for new gas storage infrastructure in doubt. When the list was expanded to include more projects, it became apparent that the PBI mechanism was anything but climate friendly; projects to finance 5 motorways and 2 gas storage facilities were included.³⁴ The projects in the pipeline showed a marked bias towards

³⁰ <http://www.counter-balance.org/what-perspectives-for-the-project-bonds-initiative/>

³¹ European Investment Bank: An outline guide to Project Bonds Credit Enhancement and the Project Bond Initiative, http://www.eib.org/attachments/documents/project_bonds_guide_en.pdf

³² "Money, money, money: No Lack of Choice", Infrastructure Investor, March 2014, pp.20-26

³³ International Energy Agency. Gas Medium Term Market Report 2013.

<http://www.iea.org/Textbase/npsum/MTGMR2013SUM.pdf>

³⁴ European Commission: The pilot phase of the Europe 2020 Project Bond Initiative

http://ec.europa.eu/economy_finance/financial_operations/investment/europe_2020/index_en.htm

supporting projects, either through direct financing or the refinancing of an existing debt, which would increase the life-time of existing fossil fuel infrastructure. This would, de facto, lock Europe into further decades of fossil fuel dependence, in contradiction to the EC's long term objective to reduce dependence on these fuels as part of its 2050 roadmap. This is confirmed by the paragraph A57 of the annex of the EIB consultation paper stating that the Project Bond Initiative is not designed for low carbon projects.

Even when the EIB announced support for projects covering transmission links for wind farms in the UK and Germany, concerns were raised about the further centralisation of energy production and the cementing of the role of big energy companies, to the exclusion of the population. Maintaining a centralised system of energy production produces an indefensible level of waste, which is incurred by sending energy over long distances from centralised generation stations.

The company which will operate the Greater Gabbard wind farm in the UK received the biggest ever fine meted out by the UK's energy regulator Ofgem for numerous breaches of its obligations relating to telephone, in-store and doorstep sales activities. In its ruling the regulator emphasised that "the likely substantial harm"³⁵ the company caused and the record fine reflected the seriousness of the company's failings to its customers. The behaviour of such company is a far cry from increased community control over energy production which a decentralised system would offer. Moreover, concerns have been raised in the UK regarding its investment in large centralised renewable energy projects. Eight such projects have benefited from £16.6bn in public support, yet will only generate 5% of the government's target for renewable energy. Margaret Hodge, an MP Chair of the Committee of Public Accounts, has warned against the lack of value for the taxpayer that these project pose; "despite the huge consumer subsidy that has gone into supporting these projects, the Department has failed to put in place any arrangements to recoup consumers' money if providers make bigger-than-expected profits from these projects. Private providers must not be allowed to make excessive profits at the expense of consumers and taxpayers."³⁶ Whilst the push towards renewable sources is welcomed, doing so through the old centralised system is not the answer to our energy needs.

- *Recommendations:*

The EIB, along with other institutional players, must develop a different policy: pushing for stringent legislation to force the industrialised world to rapidly reduce (not offset) its emissions, phase out fossil industrial fuel use and make significant investments in transformative technologies, starting now. Developing innovative financial instruments such as project bonds, using financial intermediaries with dubious environmental and social track record should not be part of the EIB climate action.

³⁵ Ofgem press release: <https://www.ofgem.gov.uk/ofgem-publications/76232/sse-press-release.pdf>

³⁶ United Kingdom Treasury Select Committee. Early contracts for renewable electricity - Chair's statement. <http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/news/renewable-electricity-contracts-chairs-statement/>