CIVIL SOCIETY’S PROPOSAL

ACTION PLAN 5 OF EIB CLIMATE BANK ROADMAP ON “COUNTERPARTY ALIGNMENT FRAMEWORK” STRENGTHENING A CORPORATE-LEVEL APPROACH TOWARDS PARIS ALIGNMENT
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 and cleaning up the transport portfolio of the bank.
The implementation of the EIB Climate Bank Roadmap 2021-2025 offers a critical opportunity for the Bank to better align all of its operations with the Paris Agreement and deliver on its climate commitments. Indeed, the EIB is not yet a “Climate Bank”, and it can only move towards being Paris-Aligned by developing and implementing a solid and ambitious Action Plan as part of its Roadmap.

This briefing is a contribution to the development of the Action Plan 5 of the EIB’s Climate Roadmap on “counterparty alignment”, as the EIB is planning to develop this Action Plan during 2021.
1.A / WHAT IS THE PROBLEM?

The EIB, despite its claims, is not yet a "Climate Bank". One of the reasons for this is that the EIB currently lacks a strong corporate-level engagement strategy in its operations and remains to date a project-driven bank. In particular, the bank does not yet have a dedicated procedure requiring clients to have decarbonisation plans in place and no dedicated approach to validate the credibility of such plans.

This means in practice that the EIB can keep supporting fossil fuel-heavy companies and other major polluters (companies emitting significant amounts of greenhouse gases - GHG), within and outside of the EU. The lack of proper corporate-level conditions means that the EIB exposes itself to growing risks, and is in danger of undermining the achievement of the objectives of the Paris Agreement. The following facts portray the issue.

The EIB, despite having ruled out direct investment for coal in 2013, 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. At a time where numerous public and private banks increasingly refuse to support such coal-heavy companies that are totally at odds with a Paris-compliant transition, this cannot be acceptable for the future "EU Climate Bank".
This is short-sighted, risky, and contradicts the EIB’s ambition to become the "EU Climate Bank" as a financial institution cannot realistically reach Paris alignment without an ambitious approach for engaging with counterparties. The lack of such an approach exposes the EIB to the transition risk of its clients that are reliant on fossil fuels and/or emit significant amounts of GHG (foremost CO2) and are increasingly having to pay the price via carbon pricing and pollution control investments. It is unacceptable for the EIB to provide advantageous financial conditions to clients and intermediaries that have not brought their overall portfolios into alignment with the Paris Agreement long-term goal, as this constitutes ‘free-riding’ on overall efforts toward that goal. The support the EIB gives to major European polluters, like the Polish utility PGE to name just one of many examples (see more details below), also exposes the bank to significant reputational risk.

With the danger of carbon lock-in and stranded assets, no public financial support should be given to companies planning new coal or other fossil fuel power capacity or related infrastructure, including buying or retrofitting existing fossil fuel assets. As fossil fuels are becoming not only an environmental but also a financial liability, supporting companies planning new fossil fuel power plants or not having clear plans to phase out existing fossil fuel assets in line with the Paris Agreement directly contradicts the EIB’s climate commitments and ability to steer the European economy towards full decarbonisation at the horizon 2050. It is important to flag that the date of 2050 is set for the entire EU economy, which means de facto that certain sectors and companies should reach net zero emissions way before 2050 (typically the power sector by 2035-2040).

But the scale of the problem is broader than the issue of support provided to fossil fuel developers. Indeed, the EIB cannot claim to be fully Paris-Aligned unless all of its direct operations within and outside of the EU (when it has a direct contractual relation with a project promoter) and its indirect operations (via financial intermediaries like commercial banks or equity funds) are Paris-Aligned.

This should be the case for all operations of the EIB Group - so both the EIB and European Investment Fund (EIF) - keeping in mind that intermediated operations at the EIB Group represent at least ⅓ of its total financing and are increasing, partly in connection to the growing firepower of the EIF.
The EIB is a laggard when it comes to setting conditions for its clients and implementation of corporate-level engagement. The following examples demonstrate that other financial institutions have already started to set conditions for their clients, contrary to the EIB which does not yet have criteria for excluding carbon emitting companies from its portfolio. For example:

• In May 2017, ABN-AMRO issued a new energy policy with criteria that prevent its financial involvement in companies which operate lignite electricity generation or with a threshold of 30% share of coal-fired electricity generation capacity in the company’s energy mix. The policy also requires that the company has an energy transition strategy.  

• Another example, BNP-Paribas, committed to only finance companies with a strategy to exit the coal power sector and, among others, to put an end, in the near future, to relations with any customer developing new fossil fuel-based production capacity (coal in this case).  

• In 2019 Credit Agricole announced taking this direction. It has not only committed to end all financial services and phase out all coal assets from its financing and investment portfolio, it also started to require all companies to publish detailed plans by 2021 to close (not sell) their coal assets.  

• ING also committed to make their relations to clients dependent on reducing their reliance on thermal coal to ≤5% by the end of 2025, which implies that these clients should follow a clear coal (fossil fuel) phase out plan.  

• UniCredit committed in August 2020 to exit coal by 2028 and published a detailed policy and action plan to reach this goal. UniCredit is ending all dedicated financing for new and existing coal projects and is excluding companies building and expanding new coal assets, as well as buying existing projects. The bank also excludes all companies generating more than 25% of their revenues from coal. Finally, UniCredit requires all coal companies to adopt a plan to phase-out the coal sector by the end of 2021, and will exclude companies that fail to adopt such a plan.  

• In February 2021, AXA Investment Management (AXA IM) updated its coal exclusion policy, which now ends financial support for and investment into significant coal plant developers (300MW as maximum threshold for new power plant against 3000MW previously) and suppliers, strengthens exclusion criteria for companies involved in coal power generation (maximum 10 GW of production).  

These examples prove that the concept of requiring decarbonisation plans and setting up of additional conditions (e.g. putting an end to the building of new fossil fuel infrastructure if the relation is to be continued) is not new, it has already been implemented by several financial institutions since more than half a decade. These particular examples relate to coal, but the concept and rules can be translated into conditions towards other fossil fuels and carbon emitting companies.

At the moment, it is clear that the EIB is lagging behind even commercial banks. With its ambition to become the “EU Climate Bank” and a leader in the green transition, the EIB should be at the forefront to the setting of such conditions and apply them widely to all its carbon emitting clients and to the intermediaries it works with.
1.C / A CASE IN POINT: EIB’S SUPPORT TO FOSSIL FUEL COMPANIES - COAL DEVELOPERS AND COMPANIES LOCKING EUROPE INTO GAS INFRASTRUCTURE FOR NEXT DECADES

The EIB’s persistent support for coal companies, by far some of the biggest polluters, is perhaps the most extreme example of double standards at the bank. The companies supported by the EIB include major polluters such as: PGE, Energa, Tauron in Poland, Endesa in Spain, PPC in Greece, RWE in Germany, and CEZ in the Czech Republic.

Billions of euros intended to support Polish state companies, such as PGE, to expand electricity grids, have in practice freed up money for new coal power plants and other dirty investments. PGE, a company regularly supported by the EIB, is Poland’s largest coal-heavy utility and one of the biggest polluters in Europe. Each year, PGE emits more CO2 than the whole economy of Hungary or Portugal and is expected to emit even more with the expansion of new coal capacity and acquisition of coal assets during the last years. PGE produces more than 86% of electricity from burning coal and - being the subject to the biggest climate litigation case in Poland’s history - continues to spread the myth that climate change is a natural process. During 2016-2019 less than 2% of capital expenditures were used to support renewable energy sources. PGE, the owner of iconic Belchatów power plant, which itself emits several times more CO2 yearly than whole Ryanair airlines, has still not announced dates for closing its coal power plants. This clearly illustrates the issues behind the project-driven approach of the EIB leading it to support major polluters.

Some EIB loans for grid expansion were supposed to facilitate renewables connectivity but this is only a very small part of the picture. An analysis from CEE Bankwatch Network found that out of the €1.5 billion the EIB extended to Polish electricity utilities between 2013-2017, less than 1% was spent on renewable capacity or grid enhancement for renewable energy.

The examples of carbon emitting companies and projects financed by the EIB do not end here. The EIB also supports other fossil fuels companies which are planning to develop new gas infrastructure that would lock Europe into this polluting fuel for the next decades. Since the adoption of a new Energy Lending Policy in 2019, the EIB made use of the transition period under the policy and the fact of not having appropriate decarbonisation criteria for its clients, to provide around EUR 890 million to companies developing fossil gas infrastructure.

Taking into consideration the average lifetime of gas infrastructure, it should be obvious that companies pursuing such projects are far from being Paris-aligned and risk creating stranded assets, and therefore should not be receiving support from the EIB if it had proper criteria for its clients.

In Cyprus, the bank also supports a company - Natural Gas Public Company Ltd - that will introduce gas to the whole country for the very first time by financing the construction of LNG infrastructure. The company will likely lock the whole country into gas for decades.

The list keeps on going, with some EIB-supported companies (like Gasunie Transport Services BV, Nederlandse Gasunie NV in the Netherlands) sometimes using the concept of blending other gases into existing gas networks as a justification to prolong the life of existing gas infrastructure.

These cases illustrate the need for the EIB to make its financing conditional on concrete, timebound company-level decarbonisation plans, including through binding contractual clauses and applying stricter due diligence. With the EIB’s intention to align all its financing activities with the goals of the Paris Agreement, it is unacceptable that its loans could be granted to companies which intend to continue building new coal or other fossil fuel power capacity or infrastructure or are not committed to phase out fossil fuels.
On 24 March 2021, when speaking during the #InvestingInClimateAction conference about the EIB’s commitment to align all of its operations with the Paris Agreement, the EIB Vice-President Ambroise Fayolle made clear that there is a need for an ambitious counterparty alignment framework: “we need to be consistent in our entire portfolio, including in our intermediated financing, our own internal activities and with our counterparts”.

Similarly, our starting point is that all EIB operations within and outside of the EU must be aligned with the objectives of the Paris Agreement, following the EIB’s objective to align all its operations with a 1.5°C scenario and to truly support the transition towards zero-carbon economies. In order to reach that objective, all high-carbon and environmentally harmful operations and companies should be excluded from the EIB portfolio through the development of a solid framework that would encompass all EIB clients, including financial intermediaries.

The EIB should cease support to carbon emitting companies, including fossil-fuel dependent companies, and to financial intermediaries, which lack decarbonisation plans to align with the 1.5°C goal of the Paris Agreement. Companies with such decarbonisation plans (as opposed to “net zero” relying heavily on offsets) should deliver clear guarantees that any EIB’s support will contribute to the goal of aligning their operations with the Paris Agreement.

The present proposal, which is intended to contribute to the dedicated EIB Action Plan 5 on “counterparty alignment”, solely covers climate issues, as it is the objective of this specific Action Plan. Nevertheless, it is central for the EIB not to limit its corporate engagement and related requirements to climate matters, but also ensure that broader social, Human Rights and environmental conditions are placed on all EIB clients. These other requirements should be covered in other strategies, policies and procedures (such as its environmental and social framework and safeguards, that are to be reviewed in 2021).

In the following sections, we lay out our recommendations on concrete measures that should be adopted as part of the Action Plan 5 under the Climate Bank Roadmap.
For all companies approaching the EIB for financing, decarbonisation plans aligned with the 1.5°C goal of the Paris Agreement should be made a compulsory requirement, and the EIB should analyse their robustness and credibility during the appraisal of project proposals.

There should be clear guarantees that the EIB’s support will contribute to the goal of its client to become Paris-aligned and will only finance projects supporting these targets and decarbonisation plans.

The EIB should require such decarbonisation plans from all its clients, while prioritising companies active in high carbon sectors like energy, transport, industry, buildings, agriculture and land-use. Given the urgency to tackle these sectors, a general approach should first apply to the biggest polluters and then be gradually expanded to all sectors and companies.

Financial intermediaries, such as banks and fund managers, through which the EIB Group channels approximately a third of its total financing, should also have decarbonisation plans aligned with a 1.5°C trajectory.
1. **LONG-TERM DECARBONISATION STRATEGY**

This should set a clear goal and vision for the company for full decarbonisation by 2040. This plan should aim at reducing GHG emissions with a trajectory compatible with the objectives of the Paris Agreement, exclusive of offsets. This decarbonisation strategy should also detail the governance arrangements and responsibilities at company level to reach all short, mid and long term plans.

For fossil-fuel dependent companies, this should for instance include a clear phase out plan to close all fossil fuels assets: coal-related by 2030 at the latest, gas-related by 2035 and reaching climate neutrality as soon as possible (by 2040).

2. **MID-TERM SCIENCE-BASED TARGETS FOR 2030**

These mid-term targets should concretely set out the key steps the client is planning to reach by 2030. All future EIB clients should include an objective for 2030, on which the EIB could provide advice and technical assistance to refine and improve it. A trajectory for GHG emissions reduction by 2030 is crucial so that ultimately the companies can align their activities with a maximum global warming 1.5°C trajectory: targets should be science-based. The targets should foresee clear milestones and be accompanied by a just transition plan for the company and its employees.

3. **SHORT TERM PLANS**

These short term plans should include binding reduction targets for the following 3 to 5 years, and investment and capital expenditure (CapEx) plans compatible with these objectives. These short term plans should be rolling ones, and updated every year. In the case of fossil fuel dependent companies, the short-term plans should make clear that CapEx plans do not include any new fossil fuel expansion and are linked to clear phase out plans to close all fossil fuels assets.

To reach the necessary level of granularity, these plans should be at asset level, for example at the level of each individual power plant (and units) for a utility.
4. **ANNUAL REPORTING ON EMISSIONS AND IMPLEMENTATION OF THE DECARBONISATION PLAN AND TARGETS, FORMALISED IN AN ANNUAL “CLIMATE REPORT”.**

This annual reporting should include a report on scope 1-2-3 GHG emissions of the company, and provide an updated binding reduction target for the following year, and investment plans compatible with these objectives (as set out in the short term plans described above). Climate reports covering activities in year Y are to be made public by the companies approaching the EIB for financing at the latest 5 months after the end of year Y (i.e. end of May).

The annual “Climate Report” on the implementation of the plans should be publicly available on the company’s and EIB’s website. In addition, it should also be integrated in the annual management report of the company (or a summary of it with most critical information), provided that it is easily accessible on the company’s website.

The EIB should insert the decarbonisation plans and all GHG emissions reduction targets of its clients into contract clauses between the EIB and its client companies and should make them publicly available. The contracts should foresee sanction clauses in case of non-compliance, leading to the termination of the contract, the earlier reimbursement of the loan and the activation of the EIB Exclusion Policy. Companies not publishing credible “climate reports” on an annual basis should be considered as breaching contracts.

**In the case of equity financing,** the EIB/EIF should condition all its financial support (including for direct or indirect equity) on obtaining a veto right in the company’s board in order to oppose any new investment or project leading to additional GHG emissions or mis-alignment with the objectives of the Paris Agreement and a 1.5°C global warming trajectory.

It should be the EIB’s responsibility to assess its clients’ decarbonisation plan, potentially in tandem with independent assessments provided by third parties to verify the data, assumptions and final conclusions used to determine the quality and soundness of the companies’ commitments and planned impacts.

The EIB should rapidly develop a fully-fledged framework for standard reporting, monitoring and control of the reporting and respect of decarbonisation targets and plans (and “climate reports”).

It is important to note that there is a significant risk of the EIB being misled by corporations which claim to adopt “net zero pathways”. Several reports show the weaknesses and greenwashing around many corporate decarbonisation announcements, for instance by major oil and gas companies. This is for example the case of this Oil Change International’s briefing paper analysing the current climate commitments of eight of the largest integrated oil and fossil gas companies (BP, Chevron, Eni, Equinor, ExxonMobil, Repsol, Shell and Total), concluding that "none of the evaluated oil majors’ climate strategies, plans, and pledges come close to alignment with the Paris Agreement”. The EIB should assess internally the robustness of decarbonisation plans and not simply rely on company’s announcements.

When assessing the robustness of the decarbonisation plans, the EIB should further check the plans against required technology decarbonisation pathways, which already exist for some sectors. This is especially the case for the energy industry, with paths providing steps for rapid transition towards 100% Renewable Energy Sources (RES). This in practice means: **phasing out coal by 2030 at the latest, gas by 2035, reaching climate neutrality as soon as possible (by 2040),** no implementation of false solutions like e.g. biomass, no Carbon Capture and Storage, taking into account only hydrogen produced in the process of electrolysis with utilisation of RES. Energy companies and companies from other sectors linked to fossil fuel use which do not follow such assumptions in their decarbonisation plans should not be eligible for EIB financing.

**For the fossil fuels sector specifically,** the EIB should:

- End support for companies, which plan to build or are currently building new fossil fuel-fired power plants, expanding or retrofitting them, developing new or expanding/upgrading existing fossil fuel infrastructure or opening/expanding coal mines or oil and gas fields.

- Require companies that receive finance from the EIB (new or existing clients) to have an agreed decarbonisation plan that phases out coal by 2030, gas by 2035 and all other fossil fuels by 2040, transitioning to 100% renewable energy by 2040 at the latest. The EIB should also exclude companies without a decarbonisation plan from receiving finance.

To reach the necessary level of granularity, these plans should be at asset level, for example at the level of each individual power plant (and units) for a utility.

While our proposal focuses on climate mitigation, we would like to highlight the importance for the EIB to also request climate change adaptation plans to its clients (taking stock of the climate change vulnerability of its clients), in a similar manner to the Paris-alignment plans. We call on the EIB to integrate this dimension in its upcoming Action Plan on adaptation as part of the Climate Bank Roadmap.
It will be crucial for the EIB and the EIF to ensure that their intermediated operations do not fuel climate change. All intermediaries should have decarbonisation plans and “Climate Reports” as described above if they want to benefit from EIB Group funding.

Putting in place such mechanisms will help ensure that the intermediaries supported by the EIB also respect the EIB’s long-term strategies and sectoral policies. This is the case for example of the 2019 EIB Energy Lending Policy which applies to all EIB operations, but does not detail the procedures to ensure that all its intermediary operations do not support fossil fuel sub-projects.

The EIB should secure the human resources and have methodologies in place to ensure the alignment of its intermediated portfolio. This should be set in stone via the creation of a new EIB standard on financial intermediaries as part of the upcoming review of the EIB Environmental and Social Framework. In addition, financial intermediaries should be explicitly covered under all EIB sectoral policies, and all climate screening tools at the EIB, carbon footprint assessments and carbon pricing should also apply to intermediaries.

We also note that there is still a major lack of transparency around the EIB’s use of financial intermediaries. In March 2021, 53 civil society groups submitted a joint paper in the framework of the review of the EIB Transparency Policy, calling inter alia on the EIB to ensure the highest level of integrity of its financial intermediaries, and to guarantee that operations via financial intermediaries be subject to the same transparency requirements as other types of loans. This is a field where the EIB is lagging behind other Multilateral Development Banks, with the International Finance Corporation (IFC) and European Bank for Reconstruction and Development (EBRD) both having committed to improve disclosure for financial intermediary loans in higher-risk sectors, and the Asian Infrastructure Investment Bank (AIIB) currently considering to do so.

For equity investments, the EIB and EIF should at least mirror the Green Equity Approach (GEA) of the IFC and expand its approach to all fossil fuels. In September 2020, the IFC adopted a new approach aimed at reducing equity client’s coal exposure by 50% by 2025 and to zero by 2030, hence committing the IFC to end equity investments in financial institutions that do not have a plan to phase out investments in coal-related activists. A report published in October 2020 by NGOs Recourse, Trend Asia, Philippine Movement for Climate Justice and Korea Sustainability Investing Forum documents the merits and weaknesses of this approach. In this context, and in light of both its fossil fuels phase out commitment via its Energy Policy and its commitment to align all its operations with the objectives of the Paris Agreement, the EIB should at least expand such approach to all fossil fuels, including gas.
2.C / SUPPORTING DECARBONISATION EFFORTS

The bank should offer increased technical assistance, including under the European Investment Advisory Hub and all facilities which will be grouped under the future technical assistance pillar of InvestEU, with regards to companies’ decarbonisation strategies, including realistic financial plans for their implementation.

This assistance however needs to go beyond simply an accompanying role. Clear restrictions should be put in place to companies and financial intermediaries who fail to align with decarbonisation objectives.

The EIB should also encourage allies and other multilateral public banks to adopt similar guidelines for their clients to develop binding decarbonisation plans that include a ‘do no harm’ principle. The EIB must demonstrate leadership and encourage others to follow its lead.

Finally, the Action Plan should foresee a review clause, so that the EIB can refine its approach every three years, in particular taking into account future legislative developments at EU and national levels.
CONCLUSION

If the right actions are taken, the EIB can become the first public bank to align its operations with the Paris Agreement and set a precedent for other financial institutions. If not, the EIB will have missed an opportunity to strengthen its corporate-level approach, will keep lagging behind other financial institutions, exposing itself to unnecessary risk from fossil fuel-dependent and carbon emitting companies and will undermine the objective of limiting global warming to 1.5°C outlined in the Paris Agreement.
As documented by CEE Bankwatch Network in their 2018 report: https://bankwatch.org/blog/european-public-banks-continue-financing-coal-bonanza


See: https://www.ing.com/web/file?uuid=ed90681d-ed77-48e6-8b5d-7010915a216b&owner=b03bc017-e0db-4b5d-ab6f-003b12934429&contentId=47211


Gas should not be perceived as a bridging fuel. See for instance: http://pricefoil.org/2019/05/30/gas-is-not-a-bridge-fuel/


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