



FLATTERING TO DECEIVE: A reality check for the 'EU Climate Bank'

JUNE 2022

ABOUT COUNTER BALANCE



Counter Balance is a coalition of nine 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 past decade, we have extensively monitored the operations of the European Investment Bank and led campaigns to make it a more sustainable, democratic and transparent institution.

More information is available at:

<http://www.counter-balance.org/>

ABOUT CEE BANKWATCH NETWORK



CEE Bankwatch Network is the largest network of grassroots, environmental and human rights groups in central and eastern Europe. It monitors public finance institutions that are responsible for hundreds of billions of investments across the globe. Together with local communities and other NGOs, Bankwatch works to expose their influence and provide a counterbalance to their unchecked power.

More information is available at:

<https://www.bankwatch.org/>

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Author:

Anna Roggenbuck
Xavier Sol

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Paul Creaney
Emily Gray
Jakub Gogolewski
Christophe Jost
Ido Liven
Gligor Radečić

Graphic Design: www.dougdawson.co.uk



FOSSIL FREE EIB

The Fossil Free EIB campaign (<http://fossilfree-eib.eu/>) is organised by civil society organisations from across Europe and beyond, and is coordinated by Counter Balance.

We aim to ensure that the European Investment Bank (EIB) stops all investment in fossil fuels and aligns itself with the Paris Climate Agreement. As organisations determined to protect our environment and our climate, and build equitable societies through sustainable finance, we believe the EIB and other public banks should lead the way out of the fossil-fuel-based energy system which has triggered the climate emergency.

Following a successful campaign to phase-out EIB support for fossil fuels in 2019, we are now focused on pressuring the EIB to set a global precedent by aligning its investments with the Paris Climate Agreement.

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INTRODUCTION

The European Investment Bank (EIB) is the European Union's investment bank and its financial arm. It has been seeking to position itself as a climate leader and is set to play a key role in financing the European Green Deal and in the EU's economic response to the COVID-19 crisis. Its macroeconomic firepower is bigger than ever. The EIB Group signed operations worth €95 billion in 2021, the highest volume of transactions it has ever financed.

In November 2020, the EIB adopted a Climate Roadmap with the aim of aligning all of its operations with the goals of the Paris Agreement, and transforming itself into the 'EU Climate Bank'¹. The previous year, in an unprecedented move for a public bank, the EIB adopted an energy policy in which it committed to phase out fossil fuels by the end of 2021.



Thanks to these commitments, the EIB can be considered a leader in the climate field. This is particularly true when comparing it with many other financial institutions, who are still falling far behind.

However, this is not mission accomplished for the EIB, as the Bank still has a long way to go to address the climate emergency. While its commitments on climate are welcome, the web of policies and strategies it has adopted – particularly its Climate Roadmap – are not yet sufficient to ensure that the Bank will deliver on its commitments and truly align itself with the objectives of the Paris Agreement². A recent [briefing](#) by 21 civil society organisations formulated clear demands to the EIB on this, highlighting key areas for improvement.

In this report, we carry out a reality check on this transformation into the 'EU Climate Bank', by analysing the EIB's operations in 2020 and 2021. In particular, we focus on the EIB's most carbon-intensive sectors of operations – energy and transport.

This report seeks to inform important processes taking place at the EIB in 2022 and 2023, specifically the mid-term reviews of its Energy Lending Policy and its Climate Roadmap. The outcomes of these processes will give a clear signal of how the Bank operationalises its commitment to combat climate change and whether it has decisively adjusted its approach to match the urgency demanded by climate science.

The current context of the war in Ukraine is decisive. Fossil fuel addiction must be stopped, as it is not only the major driving force of climate change but also the root of many wars, conflicts and social injustices. We can already see how high gas and oil prices are disproportionately affecting the energy-poor across the EU, and are set to continue doing so³.

European governments and EU institutions urgently need to free themselves from dependency on fossil fuel imports. The energy transition, which EU Member States have committed to, must be accelerated at this historic moment. EU countries must take robust action that will save the climate, nature and human lives.

To reduce the EU's dependency on Russian fossil fuels, in May 2022, the European Commission came up with the [REPowerEU](#) initiative, which should be further developed through an action plan. The EIB is called to play a central role in financing measures under REPowerEU. The Commission announced it will "work closely with the EIB to accelerate lending, blending and technical assistance for renewable energy, energy efficiency and electricity networks. The Commission and the EIB will provide by the end of 2022 a model Energy Efficiency Financial Instrument, which allows combining loans and grants in a single financial instrument operation".

We have to learn from our past mistakes and cannot rely on another round of diversification of fossil fuel imports to achieve the goals of the Paris Agreement. We need a steep reduction of overall fossil fuel demand, and Europe needs to come up with a realistic plan to decrease fossil fuel demand in the short- to mid-term based on proven and sustainable technologies. To achieve this, the full mobilisation of public finance and the EIB in particular – as the largest multilateral lender in the world – is necessary. Previous commitments and policies adopted by the EIB were steps in the right direction, but in the current context they are clearly insufficient.

>> **Methodological note:**

For this report, we used data extracted from the EIB website and provided by the EIB directly. The reference period for data collection was from 1 January 2020 to 28 December 2021. Figures in the report refer to operations signed by the EIB, meaning for which a finance contract has been signed with a client.

We used the 'Climate Action and Environmental Sustainability' database for 2021, disclosed by the EIB in February 2022, which was still awaiting audits and further checks. For that reason, there might be some minor differences between data used in our report and final data published by the Bank.

The report focused mainly on the energy and transport sectors, which are the largest sectors for EIB direct loans, as well as on what the EIB categorises as 'Climate Action'. Nevertheless, there are sectors of 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 like health, agriculture and research and innovation.

1. See the July 2020 report of Counter Balance "Too soon to call the EIB the EU Climate Bank": <https://counter-balance.org/publications/too-soon-to-call-the-eib-the-eu-climate-bank>
 2. See our December 2020 analysis of the EIB Climate Bank Roadmap 2021-2025: <https://counter-balance.org/uploads/files/Documents/Briefings-and-Policy-Files/2020-EIB-as-climate-bank-only-halfway-there-briefing.pdf>
 3. According to Ember, fossil gas was already responsible for a major spike in electricity prices even before the invasion of Ukraine: <https://ember-climate.org/insights/research/soaring-fossil-gas-costs-responsible-for-eu-electricity-price-increase/>

>> CHAPTER one

ENERGY: FOSSIL FUELS HANG ON DESPITE DIVESTMENT PROGRESS

The EIB's Energy Lending Policy adopted in 2019 was a key step forward in tackling the climate crisis¹. The Bank committed to end its financing for unabated fossil fuel energy projects by the end of 2021 and prioritise support to energy efficiency and renewable energy. Therefore, as of 1 January 2022, EIB energy investments are supposed to be 'fossil free'.

This year will be the mid-term review of the EIB energy policy. Further efforts are necessary to ensure that the Bank's commitments to phase-out support to fossil fuels are implemented in a stringent manner – especially regarding gas infrastructure and low-carbon gas projects – and to push for further restrictions on forest biomass.

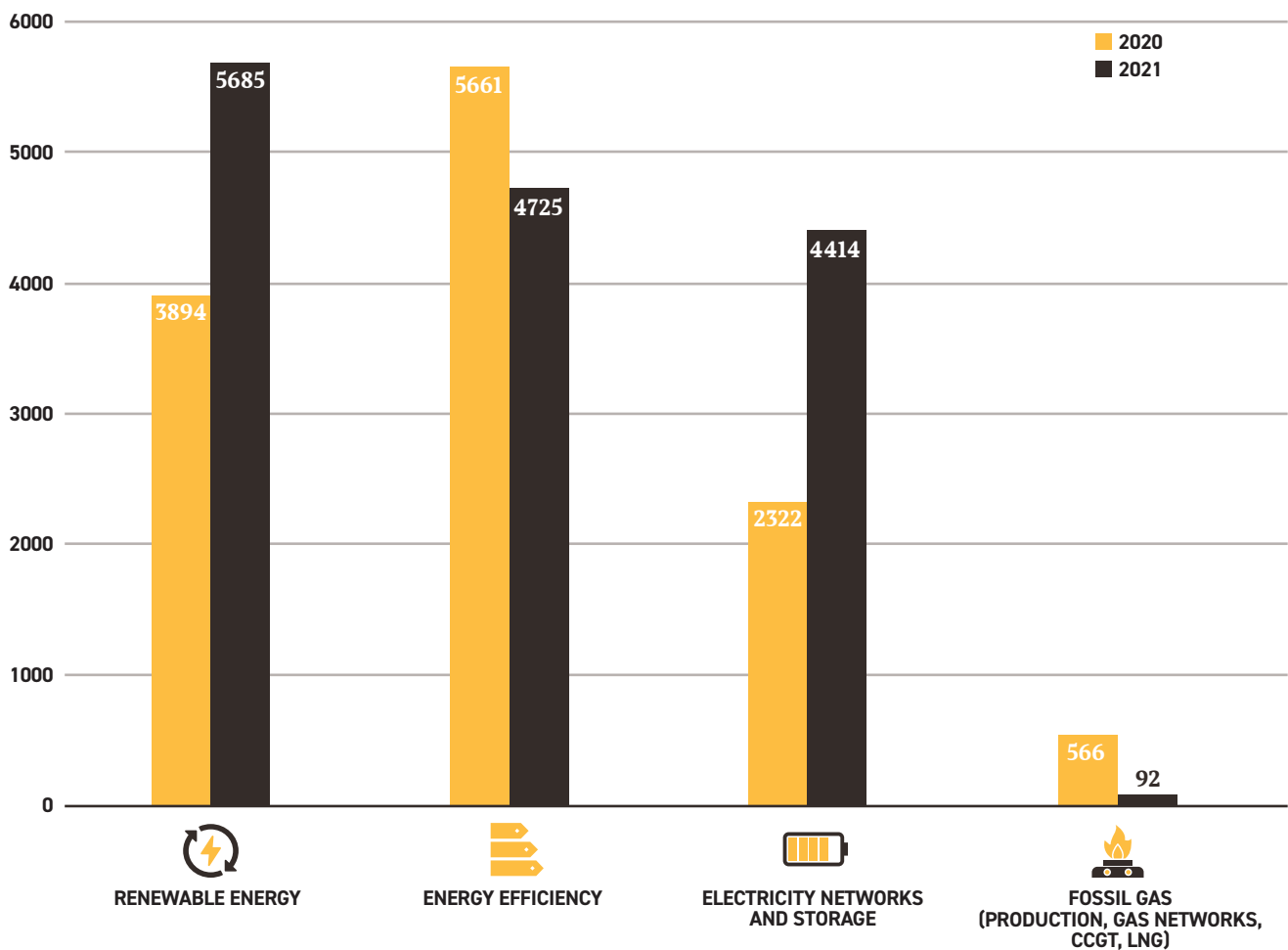
Reducing GHG emissions across the full energy sector requires major transitions, including a substantial reduction in overall fossil fuel use, the deployment of low-emission energy sources, switching to alternative energy carriers, and energy efficiency and conservation. The continued installation of unabated fossil fuel infrastructure will 'lock-in' GHG emissions".

IPCC Sixth Assessment Report, Climate Change 2022: Mitigation of Climate Change

2020-2021 LENDING: TOWARDS THE DECARBONISATION OF THE EIB'S ENERGY PORTFOLIO

In the last two years, it has become clearer that the EIB is accelerating its investments in the energy transition across Europe and beyond, in line with its climate commitments.

GRAPH 1: EIB financing in the energy sector in 2020 and 2021. (EUR million)



Out of €16.7 billion of signed projects in the energy sector, €6.8 billion (41%) were direct support to renewable energy sources. However, in addition to this figure, €2.77 billion renewable energy financing was reported under Climate Action. The other large sector of operation was for electricity distribution and grids (€6.7 billion, 40%).

Even if very problematic, lending to gas totalled €657 million (4%). This share of fossil fuel financing has been decreasing since the EIB adopted restrictions on gas through its energy policy. In the 2010s, the average volume of yearly gas financing stood at around €2 billion.

4. See the analysis of Counter Balance following the end of the review process: <https://counter-balance.org/publications/eib-energy-lending-policy-stepping-closer-to-a-fossil-free-finance>

THE RISK OF FINANCING FOSSIL FUELS THROUGH THE BACK DOOR

>> A MUCH-USED TRANSITION PERIOD

The 2019-approved energy policy included a 'transition period' that allowed it to finance several fossil fuel projects until the end of 2021. The Bank made extensive use of this transition period as it invested €657 million in gas infrastructure, contradicting its 'Gas is over' narrative.

For example, the EIB financed gas interconnection projects between Poland and Lithuania with a €65 million **loan**, between North Macedonia and Greece with a €41 million **loan** and between Serbia and Bulgaria with a €25 million **loan**.

The Bank also financed the construction of two gas power plants. The first one in Greece – a €125 million **loan** for the construction of an 826 megawatt (MW) natural-gas-fired combined-cycle gas turbine (CCGT) at Agios. Another €76 million **loan** was provided in December 2020 for the construction of the Vasilikos Power Station in Cyprus.

Cyprus was a key location for gas investments at the EIB, as the Bank also financed the 'CyprusGas2EU' project. The EIB signed a €150 million **loan** in November 2020 for the construction of liquefied natural gas (LNG) import, regasification, storage and pipeline infrastructure off the coast of Limassol.

According to the EIB, the project "is a critical component of the country's energy strategy in line with the EU regulations. It will introduce for the first time natural gas with a view to enable the country to enhance its energy security, reduce cost of energy, whilst at the same time meeting its energy mix objectives and reduce CO₂ and other air pollutant emissions".

It is difficult to understand why fossil gas is being prioritised in a country like Cyprus, which is far from meeting its renewable energy targets despite high levels of solar radiation. By financing such polluting projects, the EIB is missing the opportunity to increase renewable energy and to work towards national and international climate goals. The EIB is therefore locking Cyprus into a fossil gas future for decades while portraying itself as the 'EU Climate Bank'.

The EIB shareholders approved this loan despite earlier revelations from the French newspaper *Libération* (see [here](#) and [here](#)) on the tender procedure for the LNG terminal. The *Libération* articles highlighted the dubious financial viability of the project due to its very high cost, and the controversial tender process for the project led by the government – which resembles a no-bid contract. The proposal of an industrial consortium led by a Chinese public company allegedly won the contract against two offers rejected "before any detailed, technical and financial assessment" was carried out. These elements call into question the robustness of the due diligence performed by the Bank before deciding to back the project.

Looking at the broader picture, it is highly disturbing to see that the EU institutions keep promoting the oil and gas exploration and extraction off Cyprus, in the Mediterranean, despite the fact that this approach directly accelerates the climate emergency and fuels geopolitical tensions.



>> LOOPHOLES WEAKENING THE FOSSIL FUELS BAN

The current energy policy still keeps the door open for financing fossil fuel projects by allowing the EIB to support 'low-carbon gases'. This is problematic because the climate benefits of these low carbon gases are highly uncertain. Furthermore, the EU's current energy regulatory framework fails to define and set uniform criteria for the identification of so-called low-carbon gases, while the EIB policy framework does not provide its own definitions.

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 production⁵. This could potentially allow the Bank to finance 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.

Finally, the policy still 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 is extremely high and risks allowing gas projects to receive EIB loans.

It is essentially an open door to support conventional fossil gas plants and plants accompanied by CCS under the promise of incorporating renewables or low-carbon gases in the future.

The use of these loopholes is deeply worrying, as building any new gas projects risks locking us into this damaging fossil fuel for decades to come. Indeed, these gas projects, based on the high capital intensity necessary for their construction, are planned to operate for a minimum of 20 years in order to get a return on investment. Therefore, they risk either becoming stranded assets or locking countries into gas dependency for the next 20 years. Given the long-term tenor of EIB loans – typically 15 to 20 years – the Bank will keep such harmful projects on its balance sheet until 2040.

If the EIB is serious about becoming the 'EU Climate Bank' and aligning its operations with the Paris Agreement, it will need to close these loopholes in order not to finance any more highly-polluting fossil fuel infrastructure.

5. <https://corporateeurope.org/en/2022/05/hydrogen-north-africa-neocolonial-resource-grab>

>> BUYING INTO THE HYDROGEN HYPE

The EIB is also likely to become an important supporter of hydrogen. In December 2019, the EIB 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. Under the agreement, the EIB will play an advisory role to help companies structure hydrogen projects.

Since then, the EIB has been a vocal proponent of the development of hydrogen across Europe. It also financed several hydrogen projects, including recent ones in **Denmark**, **Spain** and **France**, as well as launched an '**Alternative Fuels Infrastructure Facility**' with the European Commission. This facility is supposed to help attract additional financing for alternative fuels infrastructure, including hydrogen refuelling stations.

In a **speech** in March 2022, the EIB's president Werner Hoyer indicated that "at the European Investment Bank, we have in the past decade extended over €550m in loans directly linked to hydrogen projects. This has helped finance over €1.2 bn in overall hydrogen investments". He went on to explain that "to address our grand climate challenge and improve our energy independence, we must ensure the deployment of hydrogen across Europe".

Many NGOs and think tanks have warned that the new hype around hydrogen in the EU is a **dangerous distraction** that will risk increasing our reliance on fossil gas.

Most hydrogen is currently produced from fossil gas, referred to as 'grey hydrogen'. While so-called 'green hydrogen' can be produced from renewable electricity, this production method so far only exists in pilot project form, and the potential for truly sustainable hydrogen production in the EU remains limited.

This means inter alia that betting on a hydrogen economy means dramatically scaling up imports. The European Commission's 2020 hydrogen strategy stresses the need to import 'green hydrogen' from its neighbourhood (North Africa and Ukraine). Since the recent invasion of Ukraine and the subsequent need to reduce dependency on Russian gas, under REPowerEU the EU has doubled its import targets to 10 million tonnes per year by 2030.

The hype around hydrogen means that big oil and gas companies will keep receiving funds from the EIB and other public banks, despite these companies being unlikely to stop extracting fossil gas anytime soon. It also risks creating a distraction away from the urgent shift needed in energy infrastructure for climate-friendly renewables and electrification.

Hydrogen could play some role in the future energy system⁶; however it should not be used as a justification for the continued development of fossil gas infrastructure, thereby postponing the phase-out of gas and other unsustainable energy sources. The fact that an enormous amount of renewable energy is needed to produce hydrogen raises concerns about the ultimate potential sustainability of the technology. Given the low efficiency of the electrolysis process paired with the need for more renewables in power production, those used to produce hydrogen will likely compete with other more sustainable applications.

Therefore, there should be no support for hydrogen based on fossil fuels (even if carbon capture and storage technology is used), as this will still not address methane leakages during extraction and transport. The blending of hydrogen with fossil gas should not be allowed. In addition, combination with nuclear energy production should be excluded. There is also a danger that hydrogen is produced using unsustainable renewables like hydropower and biomass, which must not be supported by public money, as it could encourage their widespread expansion. Finally, hydrogen production should be based on truly additional renewable energy and should not compete where renewables-based electricity could be used directly, e.g. in the heating or land transport sectors.

6. For example in niche sectors where reducing emissions and direct electrification is difficult, such as steel, chemicals, aviation, long distance shipping and heavy duty road transport



BIOMASS: NO BETTER FOR CLIMATE THAN BURNING FOSSIL FUELS

Using biomass for energy is often promoted as a solution to curb emissions, but the reality is that burning forest biomass is no better for the climate and the environment than burning fossil fuel⁷. Burning forest biomass actually typically increases CO₂ smokestack emissions per energy unit, relative to fossil fuels. On top of that, it degrades crucial carbon sinks as it burns the wood that otherwise keeps these carbon sinks in place⁸.

Still, energy from forest biomass remains eligible under the policies of the EIB. But in 2020 and 2021, there were only a few direct loans to biomass projects according to the EIB's website and project databases. Loans were signed in Poland for a biomass-fired combined heat and **power unit** in Lublin, and in Portugal for the construction and operation of a new **biomass boiler**.

There are also several credit lines or instances of financing awarded by the EIB to investment funds and commercial banks that mention forest biomass as one of their areas of investment. This is the case with a €300 million **credit line** signed with the bank BPCE in France in November 2021, or the **Green Developer Financing** programme. This programme is a renewable energy investment scheme where money can be spent on biomass or other energy projects considered by the Bank to be renewable.

Because of the lack of transparency on how money is disbursed under these 'intermediary' schemes, there is no way for the public to know how much and what was financed in the field of bioenergy. This casts a shadow over the impacts of these operations, especially as the EIB has for many years fiercely refused to open up its black box of operations carried out through financial intermediaries.

7. <https://iopscience.iop.org/article/10.1088/1748-9326/aaa512/pdf>

8. <https://forestdefenders.eu/new-report-shows-biomass-industry-is-lighting-facts-on-fire-with-sustainability-claims/>



NUCLEAR ENERGY: AN UNFINANCED OPEN SECRET

Nuclear energy is still eligible for financing at the EIB under its current energy policy. But 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 develop⁹. As an institution keen to preserve its triple A rating on financial markets – and often described as risk-averse – staying away from the nuclear sector appears a rational choice simply from a financial perspective.

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."

Still, in 2020 and 2021, not a single nuclear project was financed by the Bank.

9. See for example the massive cost increase and delays around the Flamanville 3 reactor in France:
<https://www.reuters.com/business/energy/edf-announces-new-delay-higher-costs-flamanville-3-reactor-2022-01-12/>



DISTRICT HEATING: A MAJOR CHALLENGE FOR PUBLIC FINANCE

In the EU, the largest share of final energy for heating and cooling is supplied by fossil gas (around 45%). The heating and cooling in buildings and industry accounts for half of the EU's final energy consumption. Both district heating and individual heating are still dominated by fossil fuels and inefficiently-burned biomass. According to Eurostat, only 23% of energy used for heating and cooling is generated from renewables. Decarbonisation of this sector, through increasing its efficiency and use of renewable energy sources, is key to the success of the EU's climate neutrality strategy.

Building renovation progress in the EU is slow and needs to be increased substantially, especially in the central and eastern Europe (CEE) region. Technical, regulatory and legal barriers in the CEE region for the development of sustainable renewables urgently need to be overcome. A combination of energy efficiency measures for heating with the rapid deployment of heat pumps can ease our dependence on fossil gas for this sector.

In a recent **briefing** "How can the EIB and the EU financial mechanisms support the decarbonisation of district heating?: Exemplary cases in central and eastern Europe", CEE Bankwatch Network collected examples of the successful modernisation of district heating and cooling systems administered with the support of the EU and the EIB. The analysed case studies show how available financial and technical assistance mechanisms can support district heating rehabilitation and development, their transformation from fossil fuel to renewable energy sources and the deployment of innovative technologies. It presents case studies from Poland, Hungary and Lithuania that represent the efficient use of renewable energy, waste heat and technical assistance.

These cases demonstrate the potential of public finance in tackling these challenges of extraordinary magnitude. The EIB must strengthen its engagement in the field, and do its utmost to accelerate this transformation, rather than hindering it.

HOW THE BANK CAN MAKE ITS ENERGY POLICY MEET PLANETARY NEEDS

The urgency to accelerate the EIB's transition into the 'EU Climate Bank' and take rapid steps to live up to its climate commitments cannot be emphasised enough. In order to truly meet its ambitions, the EIB needs to fully align its energy

portfolio with the objectives of the Paris Agreement. It is crucial that the EIB maintains its leadership in the energy field and closes the loopholes in its Energy Lending Policy during the mid-term review planned in 2022.

>> PUT AN END TO ALL FOSSIL FUEL FINANCING

- >> The Energy Policy should include clear restrictions to fully prevent the financing of so-called low-carbon gases, fossil-fuels-based hydrogen and fossil gas in district heating. Stopping any programmes or investments in gas boilers or fossil-fuels-based district heating is a necessity.
 - > The EIB should stop using exceptions and transition periods when the financing of fossil projects is considered, especially fossil-gas-related projects, so that it immediately stops the financing of all fossil fuel projects. Considerable risks remain in the use of many of these gases, for instance methane leakages, or the high level of energy required for these fuels' production.
 - > In particular, the Emissions Performance Standard (EPS) set at a level of 250 gCO₂ per kWh should be lowered to a threshold of 100 gCO₂e per kWh. A threshold of 100 gCO₂e per kWh is already high for renewables as they tend to achieve numbers far lower than that.
 - > Introduce an explicit ban on investments and financing that increases utility-scale biomass burning. Using biomass for energy is often promoted as a solution to curb emissions, but the reality is that burning forest biomass can be as bad for the climate and the environment as burning fossil fuels. The EIB should reinforce safeguards in the bio-economy field, agriculture and land use with an explicit ban on supporting industrial farming (including livestock) and utility-scale biomass.
- > Exclude support for nuclear energy. Building new nuclear power plants requires strong financial, political and institutional commitments, which undermines support for renewables and energy efficiency. Nuclear energy cannot be considered as a part of the solution in view of its cost, the time it takes to plan, finance and build, and the risks it poses. Europe has no time and money to lose on false solutions. Therefore, it is crucial that the EIB does not become more active in this field.
- > Finally, the Bank should continue to encourage other multilateral development banks to exclude fossil fuels from their financing and to work towards aligning their portfolios with the Paris Agreement.



>> INVEST IN A JUST ENERGY TRANSITION

European energy security cannot be achieved if it remains reliant on imported energy. This means that Europe needs to speed up the electrification of heating, transport and other sectors, increase the interconnectivity and integration of European countries and substantially accelerate the deployment of sustainable forms of renewable energy. This needs to be combined with improved energy efficiency to minimise losses. The revised Energy Lending Policy should:

- >> Establish support for energy efficiency and sustainable forms of renewable energy as a clear priority.
- >> Finance programmes for deep renovations in households to stimulate faster implementation of the renovation wave, while tackling the pressing issue of energy poverty.
- >> Step up investments in renewables while ensuring full compliance with EU environmental law and ensuring adequate spatial planning to avoid conflicts with biodiversity conservation.
- >> Support decentralised energy systems with a more active role for the public as prosumers (both producers and consumers) and energy production taking place closer to the point of consumption.
- >> Communicate more effectively on the energy sector transition by promoting energy efficiency, prosumers and community-based energy.
- >> Support national programmes to aid the switch from fossil-fuel-based heating to heat pumps or sustainable renewables for the housing sector. In addition, it should establish technical assistance programmes to develop sustainable district heating and cooling based on energy efficiency, renewables, waste heat, utilisation of heat-pumps and seasonal storage.
- >> Implement the EIB's economic and financial appraisal of projects to align both with 1.5°C scenarios in a stringent manner, ensuring a solid assessment of less carbon-intensive alternatives and indirect emissions ("Scope 3" emissions).
- >> Further develop the EIB's contribution to a just transition (including the Just Transition Mechanism) so that it can finance smaller projects (including community-led initiatives and small-scale projects especially targeting renewable energy sources and energy efficiency) and increase contacts with local and regional authorities.
- >> Avoid greenwashing and adverse social impacts by not focusing on false solutions (e.g. hydrogen, carbon capture and storage). The EIB should not achieve 1.5°C alignment through the use of carbon offsets or carbon markets – neither at the portfolio nor the project level.

>> CHAPTER two

ALL ROADS STILL LEAD TO HIGH-CARBON TRANSPORT

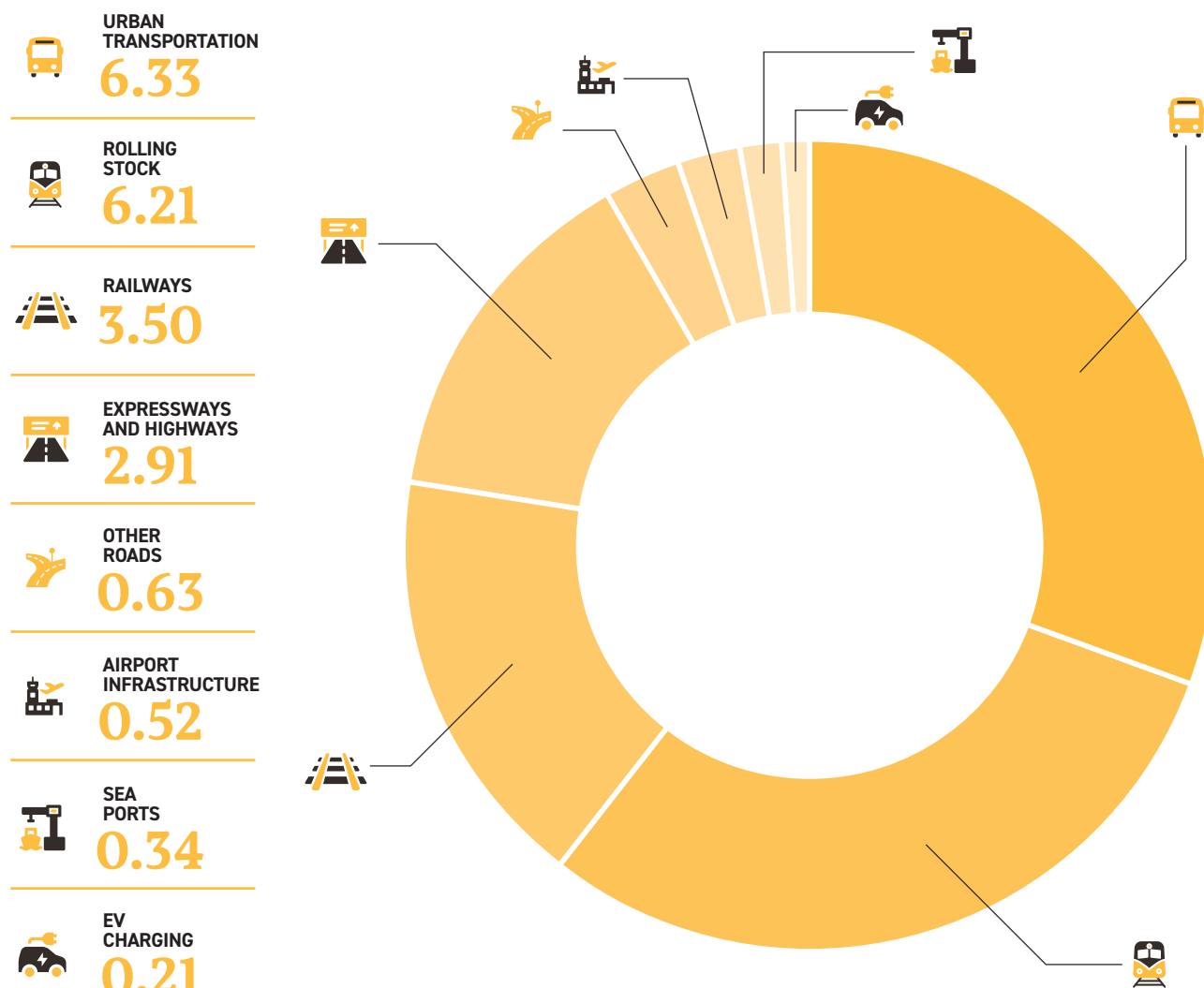
While the EIB has shown interest in financing more climate-friendly projects, like urban public transport and rail, its impact is still severely impaired by its financing of climate-damaging projects. The EIB is currently reviewing its transport policy but it is unclear to what extent it will further exclude polluting investments.

The transport sector constitutes a significant part of EIB investments – accounting for more than 25% of the EIB's entire portfolio and over €10 billion of new investments annually.

In 2020 and 2021, the EIB financed operations worth €21.2 billion in the transport field.

Investments in urban transport (€6.3 billion) (29.7%), rolling stock (€6 billion) (28%) and railways (€3.5 billion) (16.5%) represented the bulk of its financing. Altogether, these types of investments can be directed towards a transition of our transport system, in line with the EU climate commitments.

GRAPH 2: EIB financing in the transport sector 2020-2021 (EUR billion)



Still, out of €21.2 billion in transport investments, €4.36 billion (20.5%) went to carbon-intensive and polluting transport. In particular, investments in expressways and highways (€2.9 billion) are problematic, alongside other smaller road investments (€632 million), airport infrastructure (€520 million) and the expansion of sea ports (€339 million).

In a nutshell, the transport sector is a major area for EIB investments and is currently far from climate friendly or aligned with the objectives of the Paris Agreement.

One could claim that the reason for this is that the EIB Climate Roadmap establishes a transition period until the end of 2022, during which projects which are not Paris-aligned can still be financed by the EIB. This is the case for the EIB's **support** for the expansion of Bologna airport via a €90 million loan, which directly contradicts the Bank's stated intentions and public

communication. This specific loan is all the more concerning as there are other airport projects which recently received financing (like Sofia airport in Bulgaria) and others currently under appraisal at the EIB (such as in Bucharest, Romania and La Réunion, France).

Still, the review of the EIB Transport Lending Policy, under which the EIB claims that it does not want to further exclude carbon-intensive operations from its eligibility criteria, shows that the problems lie deeper than the above-mentioned transition period alone.

At the time of this report's publication, the new EIB Transport Lending Policy still has not been adopted. As a result, we have formulated the following recommendations to steer the EIB's transport portfolio onto a more sustainable path in order to transform our mobility systems.



>> SUPPORT TO MOTORWAYS AND HIGHWAYS CONTRADICTS THE EIB'S CLIMATE COMMITMENTS

One area where more ambitious action is needed – and where the EIB has been unwilling to move – is in the support it provides to the road sector, especially highways and motorways¹⁰.

For example, in August 2021, the EIB signed a major €550 million **loan** for the expansion of a toll motorway in the northern area of Milan, Italy under a public-private partnership (PPP) scheme. In October 2021, the EIB also provided a €240 million **loan** for the construction of a 37.5 kilometre beltway around the metropolitan area of three Polish cities – Gdansk, Gdynia and Sopot.

Too often, 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 to CO₂ emissions. The EU already has an extremely dense network of motorways and highways, many of which cause ecosystem fragmentation and disruptions in Natura 2000 environmentally protected areas.

Still, the EIB refuses to end its support for motorway and highway capacity expansions, despite pressure from civil society organisations to stop such investments. Instead, the Bank proposed a new carbon pricing scheme and an 'adapted economic test' in its Climate Roadmap, including through new demand forecasts. By doing so, it expects some of the most polluting highways would be ruled out.

The concrete impact of this technical approach, however, remains hard to anticipate. For instance, if the EIB assumes a rapid increase in electric vehicle use, this could simply mean the Bank would build more roads. Carbon pricing is also far from sufficient, since it does not take the impact of such infrastructure on biodiversity into account. The case of the **A49 motorway** in Germany is a recent example of an environmentally damaging project financed by the EIB that the new economic test is unfortunately unlikely to rule out.

Other political institutions have taken a more forward-thinking stance on motorway expansions. In June 2021, the Welsh government decided to freeze new road-building projects as part of its plans to tackle the climate emergency¹¹. This should serve as a source of inspiration for the EIB in making its transport portfolio more sustainable.

10. More information in this April 2021 report from Counter Balance on the track record of the EIB in the transport field: <https://counter-balance.org/publications/eib-transport-policy-in-need-of-radical-change>
 11. <https://www.theguardian.com/uk-news/2021/jun/22/welsh-government-to-suspend-all-future-road-building-plans>



>> GENEROUS EIB SUPPORT FOR THE AUTOMOTIVE INDUSTRY

In the last two years, the EIB provided more than €3.3 billion to the automotive industry under its research, development and innovation funding stream. The majority of loans in the field were for companies (largely major corporations) producing car components. While part of this financing is going to the electrification of cars, a large proportion still supports the manufacturing, research and development of conventional and hybrid vehicles.

For example, the EIB increased its funding for Fiat Chrysler Vehicles (FCA) to €800 million in 2020 to assist in the production of electric and hybrid cars. While the communication around this support is largely centred on creating jobs and accelerating the development of electric vehicles, a large portion of the financing will actually support hybrid vehicles, which have far more of a problematic environmental impact.

A 2020 **report** from Transport & Environment found that three of the most popular plug-in hybrid cars all emitted significantly more CO₂ than advertised when tested in the real world. This is in part due to flawed assumptions regarding the use of electric motorisation, which is not consistent with real use. Hybrid cars which do not largely use their electric motorisation actually pollute more than cars powered by fossil fuels.

If the EIB is to align with the Paris Agreement, it should focus its support on the development of fully electric vehicles. However, it is important to highlight that the production of electric vehicles themselves are associated with problems in their supply chains, particularly with increased demand for minerals, which is causing serious risks for the environment and human rights – particularly in the Global South.

It is also worth noting that among the three traditional car manufacturers supported by the EIB (Fiat Chrysler, Volvo and Peugeot), two of them (Fiat Chrysler and Peugeot) are considered not aligned with the Paris Agreement by the Transition Pathway Initiative (TPI)¹².

Ultimately, there is an urgent need to rethink car travel and move beyond private car ownership. For a public bank like the EIB, this means paying close attention to these emerging problems and only financing projects that can really transform mobility systems and models.

12. <https://www.transitionpathwayinitiative.org/companies/fiat-chrysler>
<https://www.transitionpathwayinitiative.org/companies/volvo>



>> BANKING ON A HIGH-CARBON MARITIME INDUSTRY

The maritime industry is often omitted as a polluting transport sector, despite the fact that global shipping accounts for more than 2% of global greenhouse gas emissions. Shipping is one of the sectors in which decarbonisation is the hardest to achieve, mostly due to the high cost and lack of availability of low-carbon technologies, but also to the fragmented structure of the industry as well as the difficulty to enforce environmental measures.

The EIB is continuously supporting port expansions and related infrastructure. What is brought into question is whether an increase in global trade and cruise ship tourism, both of which are often the main rationale for the Bank's maritime investments, can be consistent with the Paris Agreement objectives.

Recent examples of ports financed by the EIB in 2020 and 2021 are **Klaipeda**, Lithuania, and Ports Occitans in southern France (a €150 million **loan** in April 2021 to develop the ports of Sète and Port-la-Nouvelle). As in previous years, Italy is a major area for EIB port investments, with a €25 million loan for the port of **Ravenna** in July 2021 and a €100 million **loan** in December 2021 to co-finance a new investment programme in the ports of Genoa and Savona.

It is also important to note that the EIB Transport Lending Policy leaves the door open to support LNG, despite its commitments to stop financing fossil fuels and increasing research showing its extremely limited climate benefits. A report from Transport & Environment described LNG as **an expensive diversion** that will make it more difficult for the shipping industry to align with the Paris Agreement goals. In 2021, the World Bank issued a **highly critical report** on LNG, dismissing its long-term role and calling instead for investments in more promising energy sources.



>> RECOMMENDATIONS FOR THE REVIEW OF THE EIB TRANSPORT LENDING POLICY

Despite its climate commitments, the EIB's transport operations are not aligned with the objectives of the Paris Agreement. The EIB must radically change its approach to transport if it is to play a transformative role in the transition towards a low carbon future. If re-directed towards climate-proof and transformative projects, the EIB's investments will be essential in helping the EU to transform its transport system and meet the objectives of the European Green Deal. In order to align all EIB transport operations with the objectives of the Paris Agreement, we recommend the following:

- >> Support and scale up financing for zero-carbon transport infrastructure, urban electric public transport, rail electrification and refurbishment and zero-emission multimodal transport services.
- >> End the financing of any expansion or capacity increase in motorways and highways. The use of carbon pricing – while welcome – will not be sufficient to rule out most motorway and highway projects.
- >> End support and financing for LNG floating terminals, and LNG fuelled vessels.
- >> End the financing of port expansions in Europe and related transport and industrial infrastructure including the expansion or creation of special economic zones.
- >> Only support the electrification of trucks, coaches and vessels and not support powertrains relying on gas, biofuels, or oil.
- >> End support for all biofuels and fossil-fuels-based hydrogen (including fossil-fuels-based hydrogen plus CCS technology) as alternative fuel sources.
- >> End loans for the manufacturing of internal combustion engines (including hybrid vehicles) in the automotive sector.
- >> Support renewal of public transport fleets towards zero emissions vehicles, extension, renewal and electrification of rolling stock for rail passengers (including night trains). Initiatives like supporting a **rail renaissance** or the new EIB **Green Rail Investment Platform** should be further accelerated.
- >> Any new local and urban roads should be financed only if cycle lanes or other soft mobility infrastructures are integrated into the planning.
- >> Immediately end the financing of airport capacity expansion and all loans resulting in increased air traffic (before the end of the transition period under the Climate Roadmap).

>> CHAPTER three

PUBLIC MONEY STILL FEEDING POLLUTERS

In its Climate Roadmap adopted in November 2020, the EIB committed to develop counterparty alignment guidelines to ensure that its clients are taking steps towards decarbonisation. Following on from this, the Bank adopted the 'PATH Framework – Supporting counterparties on their pathways to align with the Paris Agreement' in October 2021.

The rationale behind these guidelines was to position EIB-financed projects in the context of the Bank's clients' operations in order to avoid the risk of greenwashing. The framework states that the EIB wishes "to support specific investments within the context of a clear understanding how the counterparty intends to transition to a low-carbon and climate-resilient future – and be able to support a counterparty, where appropriate, in making this transition"¹³.



Concern over the EIB's involvement in financing the projects of corporations involved in activities which undermine the EU's decarbonisation objectives has been growing for years. Research we conducted in 2018 showed that despite eliminating direct finance for coal projects (both in the mining sector and energy production), the EIB was still indirectly financing the coal sector. Between 2013 and 2017, the EIB provided €3.9 billion to a number of companies with a high share of coal in their power and heat generation portfolios or which planned to develop new coal power capacities.

The EIB had lagged behind in setting conditions for its clients on corporate-level emissions disclosure and decarbonisation plans. Despite its commitment to align its operations with the goals of the Paris Agreement by the end of 2020, the EIB still did not have concrete restrictions to stop financing high-carbon companies and banks that lacked solid decarbonisation plans to align with the Paris Agreement. Civil society organisations have repeatedly criticised the EIB about the blank cheques it awards to polluters such as coal developers, and a group of 8 non-governmental organisations sent a detailed proposal on "counterparts alignment" to the EIB in May 2021¹⁴.

The EIB's involvement in coal-dependent energy companies was a striking example of why the Bank had been expected to adopt contextual decarbonisation alignment assessments. This approach had to also apply to other high-emitting sectors.

The adopted PATH Framework identifies 17 high-emitting sectors – transport, industry, mining, energy and agriculture – in which companies will now be required to have decarbonisation plans in place if they want to benefit from EIB funding¹⁵. This means that, in theory, the EIB should no longer finance the projects of polluting companies if they continue activities that are not aligned with the objectives of the Paris Agreement.

The Framework is a clear improvement in the EIB's climate-related standards. However, it has only been fully applicable to new projects from January 2022. Projects already under appraisal will not be required to comply with the Framework if approved before the end of 2022. The Framework will only become fully applicable for all operations as of early 2023. On the positive side, clients' decarbonisation strategies and their rationale will have to be available in the public domain for all stakeholders. The EIB has already included brief assessments of clients' Paris alignment strategies in several Environmental and Social Data Sheets which are publicly available on its website. This increases the transparency of the EIB's climate appraisals, but references to publicly available decarbonisation strategies are not systematically provided.

13. PATH Framework. Supporting counterparties on their pathways to align with the Paris Agreement, October 2021, page 7

14. <https://counter-balance.org/uploads/files/Documents/Briefings-and-Policy-Files/2021-Counterparts-Alignment-Briefing.pdf>

15. A detailed justification is included in Annex 2 of the PATH Framework



>> THE EXISTING LOOPHOLES IN THE PATH FRAMEWORK

The Framework assumes that the corporate strategy is aligned if:

- >> The company is rated as aligned by leading independent organisations (such as the Science Based Target Initiative or Transition Pathway Initiative) and has been publicly disclosed; or
- >> It publicly defines and explains its alignment strategy containing: 1. A mid-term, rolling, quantitative emission reduction target implying an annual linear emission reduction rate equal or greater than 4.2% or an explanation of the derivation of the target, in reference to the context of relevant national/international climate targets and 2. Options over a longer time horizon to achieve carbon neutrality towards mid-century¹⁶.

However, the Framework contains some significant loopholes:

- >> It fails to request that EIB clients have clear exit plans for oil, gas and coal. Oil and gas companies will still be able to receive funding for specific "innovative low-carbon projects" even if they plan to continue (or expand) the extraction of fossil fuels.
- >> It lacks requirements for short-term plans, such as binding reduction targets for the following three to five years, for which the corporate management can be held accountable for. Therefore, assessing the credibility of decarbonisation plans and guaranteeing they do not rely on offsetting and hypothetical promises on future targets remains a particular challenge.
- >> The EIB does not have a mechanism in place to suspend loans when a client does not respect the targets they have set in their decarbonisation plans.
- >> **It remains extremely weak when it comes to financial intermediaries.** 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 financial intermediaries (often commercial banks and equity funds). Instead of requiring these banks and funds to have decarbonisation plans in place, the EIB will simply request them to disclose their financial exposure to climate change risks, with the actual content of this disclosure not mattering to the EIB. **In a nutshell, the EIB is poised to continue supporting banks and funds which have no serious plans to become Paris-aligned. This is a major shortcoming in the transformation of the EIB into the EU Climate Bank.**

16. PATH Framework, point 4.17, page 8



>> HIGH-CARBON COMPANIES CONTINUE TO BE FINANCED

The EIB Energy Lending Policy has effectively ruled out most of the Bank's direct fossil fuel lending. As explained in Chapter 1, EIB support to fossil fuel projects totalled only €650 million in 2020 and 2021. However, our research shows that the Bank continues to finance companies with a high proportion of coal in their power and heat generation portfolios, and corporations which operate and develop other fossil fuel projects in the oil and fossil gas production and transportation, power and heat production sectors.

In 2020 and 2021, the EIB provided almost €2 billion in loans to companies with a high share of coal in their power and heat generation portfolios. This includes loans to Energa, Tauron, CEZ, Endesa and PPC in support of projects in electricity distribution and the development of renewable energy. Not all of these companies disclose corporate decarbonisation strategies and ultimately not all of them have their emissions reduction

targets aligned with the Paris Agreement benchmarks used by the EIB. Energa, Tauron and CEZ do not have coal phase-out plans aligned with the Paris Agreement, which would eliminate this most polluting energy source by 2030. CEZ has the most ambitious strategy and plans to only generate 12.5% of its total generated power from coal by 2030. According to the EIB's appraisal, only Endesa has emissions intensity and targets aligned with the Paris Agreement benchmark of TPI of "Below 2 Degrees".

With these investments, the EIB is putting the support it provides at risk of being wasted on financing activities which will not bring the expected climate change mitigation impact. The Bank should instead be redirecting them towards genuine energy transformation solutions delivering on the Paris Agreement goals.

In October 2021, the Bank lent over **€600 million to Tauron** for investments in the electricity distribution network in south and south-western Poland from 2022-2026. Tauron produces as much as 90% of the energy that it sells from coal, making the company one of the most coal dependent energy producers in Europe. In addition, it further develops coal mining through its subsidiary and has recently opened a new 910 MW coal power plant in Jaworzno.

Tauron's corporate strategy does not assume phasing out coal by 2030, and it does not have any other long-term strategy in place. The company plans to halve its emissions by 2030, however this is mostly through selling coal assets and switching to more efficient fossil gas power plants. Investments in renewable energy are also planned. However, as noted by the EIB's appraisal report, Tauron's carbon intensity target in 2030 would still be higher than the average for the power sector pathway to meet the low carbon goals in the Paris Agreement.

Other corporations operating in the fossil fuel sector also hugely benefit from EIB loans. In addition to direct fossil gas investments, **the Bank has supported fossil fuel companies with over €5.4 billion over the last two years.** Among the companies supported are the biggest European energy companies including EDF Group, TotalEnergies, Eni, Orlen, Enel, Iberdrola, Snam and Engie.

The majority of financed projects concern the development of renewable energy and electricity transmission and distribution. However, a number of these companies are developing new oil and gas projects which cannot be reconciled with the need to decarbonise the energy sector. Snam is a shareholder in the Trans Adriatic Pipeline – a part of the Southern Gas Corridor which transports around 10 billion cubic metres of fossil gas to the EU annually. TotalEnergies plans to spend \$60 billion on new gas and oil investments between 2022 and 2030, while Italian oil and gas company Eni plans to invest almost \$18 billion in fossil gas projects¹⁷.

A recent report by Europe Beyond Coal and Ember found that none of the biggest European energy utilities, including those frequently accessing EIB loans, have sound plans to meet the International Energy Agency's science-based milestones to meet the mid-century target and limit global warming to 1.5 degrees¹⁸.

At a time of climate emergency confirmed by alarming warnings from the Intergovernmental Panel on Climate Change about irreversible climate disaster if global greenhouse gas emissions do not peak by 2025, the EIB must have a strict approach to corporate finance.

In the research underpinning this report, we only analysed carbon-heavy companies in the energy sector. The figures highlighted above are only a portion of EIB financing going to polluters. For example, the EIB is also financing large multinationals in heavy industry sectors like steel production or car manufacturing, which have equally struggled to bring their practices in line with the Paris Agreement.

The credibility of the decarbonisation plans presented by companies is also something requiring careful assessment by the EIB, as many 'net-zero' pledges presented by carbon-heavy companies are empty shells. On top of this, corporations which still plan to make fossil fuel investments should not be supported at all by the EIB.



>> OUR RECOMMENDATIONS:

While the PATH Framework is the beginning of a more solid approach to the EIB's corporate support, the Framework fails to address some of the necessary requirements for Paris alignment and significant loopholes remain. We therefore call for the urgent revision and reinforcement of the PATH Framework.

- >> The PATH Framework fails to require EIB clients to have clear exit plans for oil, gas and coal. There are no demands for fossil fuel companies to set a date by which fossil fuels need to be phased out (coal by 2030, gas by 2035, carbon neutrality by 2040). Such dates should be one of the key indicators to immediately assess the credibility of the decarbonisation plan presented by the company. Similar benchmarks should also be developed for other sectors (including transport and agriculture).
- >> To ensure the credibility of the decarbonisation plans presented to the EIB, the Bank should make explicit the requirement that the climate target set by the company should be science-based, i.e. aligned with a credible 1.5°C scenario with no or limited overshoot. It should not rely on offsetting and hypothetical promises of pilot or future technologies which are not of the scale to tackle the existing issues (e.g. CCS).
- >> The EIB should insert decarbonisation plans and greenhouse gas emissions reduction targets into contract clauses with its clients – so that climate inaction by the company constitutes a breach of the contract – and make these plans publicly available.
- >> The Framework is extremely weak regarding financial intermediaries and will do nothing to change the fact that a large portion of the EIB's operations channelled through intermediaries cannot be considered Paris-aligned. We urge the EIB to ask intermediaries to adopt sound decarbonisation plans if they want to be financed.

>> CHAPTER four

CLIMATE INVESTMENTS ON THE RISE, BUT BIG CHALLENGES ON THE HORIZON

The EIB has a long history of supporting climate change mitigation and adaptation projects. During the 2010s, the Bank aimed at dedicating a quarter of its operations to support the transition to a low-carbon and climate-resilient economy. The EIB refers to these investments in climate mitigation and adaptation as 'Climate Action'.

In 2019, the EIB committed to increasing the share of its financing dedicated to climate action and environmental sustainability to 50% of its operations by 2025, in order to mobilise €1 trillion in investments from 2021 to 2030¹⁹.

A year later, the Climate Roadmap was adopted and provided details on how the Bank intends to meet these objectives. In a nutshell, it outlines a holistic approach to the EIB's operations with the aim of ensuring that no EIB financing undermines the 50% earmarked for climate and environment objectives.

Civil society organisations had been criticising the Bank for years before this, arguing that despite considerable investments in climate action, the EIB continued to invest billions in high-carbon, unsustainable projects across different sectors – undermining climate change mitigation projects²⁰.



CHANGING DEFINITIONS: FROM CLIMATE ACTION TO CLIMATE ACTION AND ENVIRONMENTAL SUSTAINABILITY

Until the end of 2020, the EIB was using a system to track and report what it labelled as 'Climate Action'. The system was largely based on a joint methodology²¹ developed with other multilateral development banks (MDBs).

The adoption of the Climate Bank Roadmap significantly changed this system. It broadened the scope of Climate Action to 'Climate Action and Environmental Sustainability', in an effort to align the EIB's tracking methodology with the framework defined by the EU Taxonomy on sustainable investments.

In practice, Climate Action criteria for adaptation projects will simply be aligned with those defined in the EU Taxonomy. The same will apply to climate mitigation. However, for sectors not covered by the taxonomy, the joint-MDB methodology will still apply. On top of this, the EU taxonomy is now in the process of including gas investments which are incompatible with EU and Paris Agreement climate commitments. Therefore, the delegated act is not suitable to be used by the Bank in its current form.

For its new 'Environmental Sustainability' category, the EIB decided to develop its own interim methodology for tracking and recording projects. It hired external consultants to support the development of an integrated CA&ES Finance Tracking System²². The EIB has not yet publicly presented these new definitions and screening criteria.

In practice, using the taxonomy will mean that the EIB reports higher climate and environmentally sustainable financing than it currently does. In 2019, the EIB reported 31% of Climate Action and forecasted €14.5 billion to €16 billion in investment under its Environment Public Policy Goal²³. With the new definition under the roadmap, Climate Action and Environmental Sustainability will become a single transversal objective.

The EIB should therefore provide a detailed explanation of whether it actually increased financing for climate action and environment or if it simply reported higher spending due to methodological changes. This shows that while the EIB is bound to make use of the EU Taxonomy, it should retain the possibility of applying more stringent standards and requirements.



While the EIB is bound to make use of the EU Taxonomy, it should retain the possibility of applying more stringent standards and requirements.

19. **EU Bank launches ambitious new climate strategy and Energy Lending Policy**, 14 November 2019

20. **Climate action at the European Investment Bank: an overview**, CEE Bankwatch Network 2019 and **Failing Better or Climate Success?**, Bankwatch, Counter Balance, Friends of the Earth Europe, November 2018

21. **Climate Finance. Joint Report of Multilateral Development Banks 2020**, Annex B and C

22. **Support to the definition of a Climate Action and Environmental Sustainability Tracking System**, Trinomics

23. **EIB Operational Plan 2020**, page 19. Environment Public Policy Goal is a vertical goal and therefore it does not add up to Climate Action spendings.

THE EIB'S CLIMATE ACTION FINANCING – AN OVERVIEW



The Bank's financing of Climate Action has been systematically growing over the years and has often exceeded the 25% target of total EIB lending. In 2019, Climate Action financing reached almost 31%.

However, our previous research showed that the Bank struggled to finance climate projects in several EU countries. Despite the significant volume invested, deep discrepancies in EIB investments between EU states remained a major issue. In addition, the transport sector dominated Climate Action financing and was weighted equally with energy efficiency and renewable energy, despite its lower contribution to climate change mitigation²⁴.

The EIB Climate Roadmap aimed to steer Climate Action towards the highest-impact activities (financial and non-financial) to bring significant mitigation or adaptation gains by expanding the pipeline of climate projects, among other activities. An increase in adaptation finance, which was a traditionally marginal part of the EIB's climate action finance, also became an essential objective of the plan²⁵.

As a consequence, the EIB was able to significantly increase the share of climate financing in its total lending in 2020 and 2021 – Climate Action reached 36.6% and 40% respectively.

24. *Climate action at the European Investment Bank: an overview*, CEE Bankwatch Network 2019

25. *EIB Climate Strategy*, November 2020

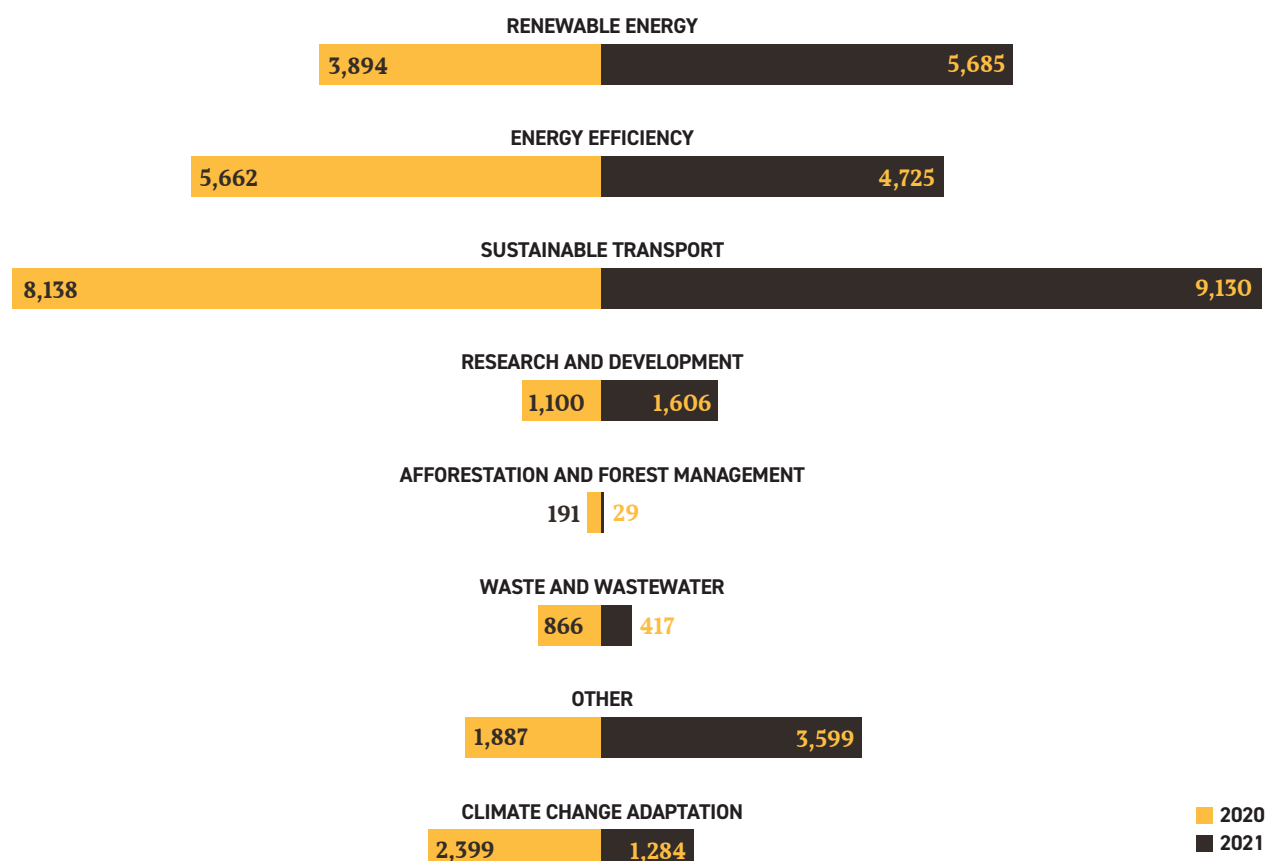
Table 1. Finance for Climate Action, EUR million

	RENEWABLE ENERGY	ENERGY EFFICIENCY	SUSTAINABLE TRANSPORT	RESEARCH AND DEVELOPMENT	AFFORESTATION AND FOREST MANAGEMENT	WASTE AND WASTEWATER	OTHER	CLIMATE CHANGE ADAPTATION	TOTAL
2020	3893.5	5661.5	8137.9	1100.4	190.6	865.5	1887.3	2399.3	24136
2021	5684.6	4725.1	9129.66	1605.6	29.4	416.6	3599.2	1284.18	26 474

These are not entirely comparable figures as a different methodology for Climate Action was applied from 2021 onwards. The growth of the 'Climate Change Mitigation: Other' category is noticeable and considerably contributed to the overall increase of Climate Action spending. It almost doubled in 2021 compared to 2020, reaching 13% of all Climate Action, and was several

times higher than in previous years²⁶. This category remains the least transparent and if its scope had been enlarged, it might simply include projects previously financed by the Bank which were not defined as climate change mitigation. As the size of this category is no longer marginal, the Bank should release its definitions and criteria so an assessment of its climate mitigation impacts can be made.

GRAPH 3. Climate Action 2020-2021 (EUR billion)



26. In previous years, between 2017-2019 this category constituted from 3% to 4.6% of Climate Action and represented around €0.6-0.9 billion annually.

The transport sector remains the largest recipient of EIB climate finance, absorbing over a third of the Bank's total climate investments, while also systematically growing in absolute terms since 2016. The Bank expects demand for sustainable transport projects to further increase and the relative share for Environment support as a percentage of total new signature volumes to grow²⁷.

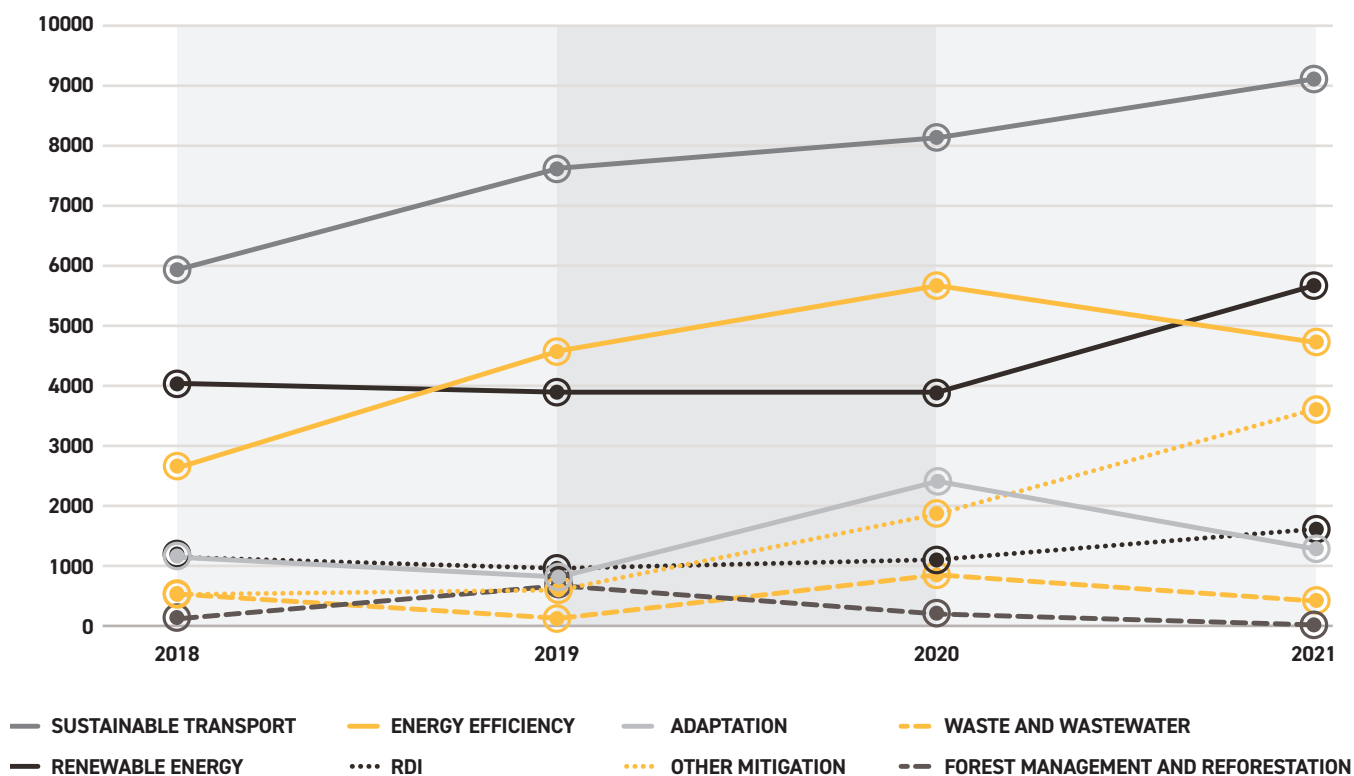
Financing for renewable energy sources has also been growing since 2015, although the EIB has reached similar lending volumes in the past²⁸. It is pivotal that financing for renewable energy is being made increasingly available from the EIB, in combination with financing from EU funds and increased technical assistance based on the existing pool of knowledge and exemplary case studies²⁹.

After plunging in 2018, the financing of energy efficiency projects broke records in 2020. On a longer timeframe it steadily grew from €3.6 billion in 2014 to €4.7 billion in 2021. Energy efficiency is a critical sector for the EU to speed up in the energy

transition. Business as usual solutions are no longer an option and disruptive and transformative solutions are needed. That means prioritising and accelerating investments for energy efficiency. Reducing energy consumption is even more crucial as we move towards a greater electrification of buildings, including their heating, as well as industry and transport. Therefore, our assessment is that the EIB needs to be ready to increase the speed of the renovation wave and dedicate more funds for this purpose.

Following the adoption of the EU strategy on adaptation to climate change, the EIB prepared its own Climate Adaptation Plan in support of the EU strategy and with the aim to address growing need for adaptation finance³⁰. It remains to be seen if a new plan will help to increase the amount of the Bank's financing dedicated to projects 'enhancing adaptive capacity, strengthening resilience and reducing vulnerabilities to climate change'³¹. These flows have so far been marginal from the EIB, while it is too soon to conclude that a slight increase in lending to this category of projects will become a lasting trend.

GRAPH 4. EIB Climate Action 2018-2021 (EUR million)



27. EIB Operational Plan 2019, page 16

28. In 2013 EIB RES financing reached EUR 6.4 bn and in 2014 – EUR 5.9 bn

29. How can the EIB and the EU financial mechanisms support the decarbonisation of district heating?: Exemplary cases in central and eastern Europe, Bankwatch Network, December 2021

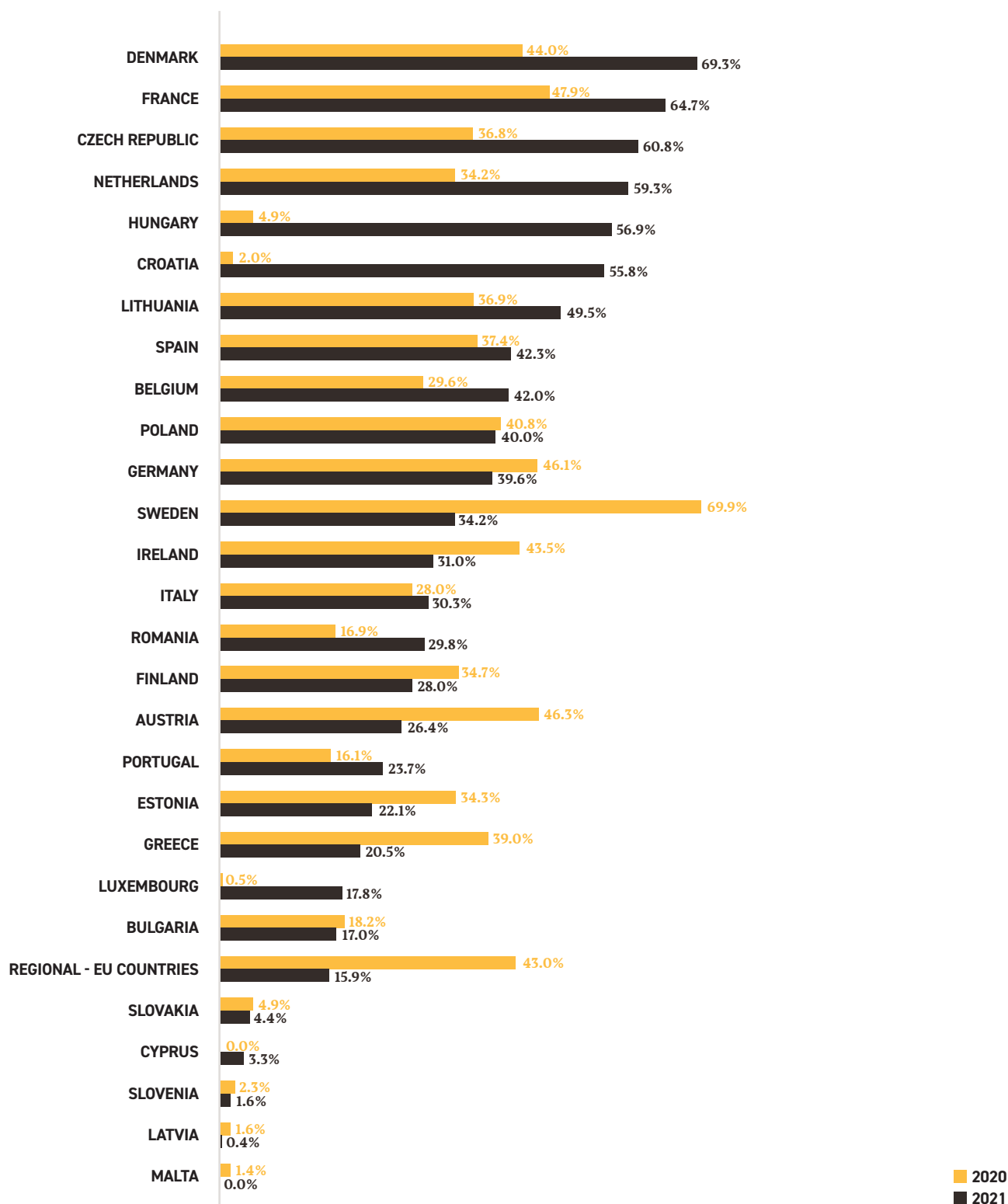
30. The EIB Climate Adaptation Plan. Supporting the EU Adaptation Strategy to build resilience to climate change, October 2021

31. Paris Agreement, Article 7

National discrepancies between EU Member States in receiving the EIB's climate finance still exist but are diminishing. There were 13 countries where the share of Climate Action reached above 30% or 40% of total lending over the last two years. EIB

climate finance is less present in smaller Member States where the Bank's overall lending has plateaued, resulting in limited opportunities for the Bank to expand the Climate Action pipeline.

GRAPH 5. *Climate Action in EU Member States 2020-2021. Percentage of total lending*



QUANTITY AND QUALITY: MAKING EIB CLIMATE FINANCE TRULY SUSTAINABLE



Despite deploying considerable financial support, the EIB's 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 where climate finance is especially needed. Exactly what the EIB considers climate-friendly activity remains the core issue, 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 their quality.

In February 2022, the EIB adopted a new Environmental and Social Sustainability Framework (ESSF), consisting of a Social and Environmental Policy and 11 Standards. It is now a key tool for the Bank to deliver on its sustainability commitments. But despite enhancing biodiversity protection, integrating gender considerations and improving its definition of Indigenous Peoples, the ESSF still fails to make the EIB a responsible lender and largely undermines its commitments to become the 'EU Climate Bank'.

The EIB resisted reinforcing its commitments and procedures on human rights, and also failed to establish that intermediated operations are subject to the same due diligence, monitoring and transparency requirements as its direct lending. Ultimately, the new ESSF does not guarantee that both the public and project-impacted people will be informed and consulted on EIB-financed projects in a timely way.

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.

In this regard, non-governmental organisations have repeatedly pointed out the risk of the EIB falling into the trap of **greenwashing**. In the coming years, it will be of utmost importance for the Bank to not only raise its climate portfolio, but also to improve the quality of this portfolio.



>> OUR RECOMMENDATIONS:

- >> The EIB should increase the transparency of its methodologies for categorising what constitutes 'Climate Action' and 'Environmental Sustainability' projects.
- >> The EIB should further prioritise and accelerate investments for energy efficiency and renewable energy projects, in combination with EU funds and via increased technical assistance.
- >> 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 their quality. The EIB should also strengthen its environmental, social and human rights due diligence for Climate Action and Environmental Sustainability projects.

>> CONCLUSION

TO HELP OR HINDER A JUST CLIMATE TRANSITION?

The war in Ukraine has highlighted the urgent need to break our dependence on fossil fuels. Public banks like the EIB must halt all fossil fuel projects as a matter of European security, independence and sovereignty. Decarbonisation processes must be speeded up, while fossil gas infrastructure must no longer be considered for use in the shift away from coal in the next decade.

The Bank must accelerate its transformation into the 'EU Climate Bank' by becoming a driver of the financing of the REPowerEU plan. In practice, this means scaling up the deployment of energy efficiency programmes, heat pumps and renewables across Europe and beyond.



As a matter of urgency, the EIB must reformulate policies to effectively tackle EU dependency on fossil fuels in transport, industry, heating and power generation.

The concept of EU energy security based on diversification of fossil fuel imports needs to be urgently redefined. Construction of new gas infrastructure in Europe (e.g LNG terminals, pipelines, extraction sites) cannot be considered a solution, as these projects take three to seven years to develop, and lock in fossil fuel use instead of reducing demand for fossil gas. This is urgently needed to address climate change and other negative social impacts³². LNG emits more greenhouse gases than gas pipelines, mainly CO₂ and methane, due to longer supply chains and the higher energy intensity of LNG production and transportation (part of the LNG production is based on shale gas extraction, necessary liquefaction and regasification). Due to the tight supply of LNG on gas markets, LNG producers want long-term commitments from importing countries for capacity expansions. The dominant LNG market model is based on long-term take-or-pay LNG import contracts lasting between 10 and 25 years. This will lock the EU into fossil gas after 2050. Furthermore, due to the global model of LNG business,

competition with other markets increases energy prices. This type of new infrastructure could also expose Europe to further dependence on Russia or other undemocratic regimes.

Therefore, the EIB must stick to its climate commitments and not give in to political pressure to get back to its old, climate destructive habits in the gas industry. On the contrary, the Bank needs to redouble its efforts to steer a just and sustainable climate transition across Europe and beyond.

For instance, while the EU taxonomy for sustainable investments will underpin the EIB's future criteria, they should only be conceived as a minimum. The EIB must retain the possibility to apply more stringent criteria than the EU taxonomy in areas where the latter is weak, such as on LNG and biomass. The EIB has not been afraid to talk up its position as the 'EU Climate Bank'. The upcoming mid-term reviews of the Energy Lending Policy and the Climate Bank Roadmap will be litmus tests for seeing if there is substance behind this positioning. The lives and livelihoods of millions of people across Europe and the planet will depend on it.



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32. See the study from Artelys in May 2022 showing that Europe does not need new gas infrastructure for phasing out Russian gas (<https://elperiodicodelaenergia.com/wp-content/uploads/2022/05/Artelys-Russian-gas-phase-out.pdf>) and a briefing of Friends of the Earth Europe and Food & Water Action Europe "LNG: the liquid path to climate chaos" (https://friendsoftheearth.eu/wp-content/uploads/2022/05/LNG_Liquified_path_climate_chaos.pdf)



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