IS THE EIB REALLY A CLIMATE LEADER?

/climate bank vs greenwashing

Counter Balance
Challenging Public Investment Banks

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Counter Balance is a coalition of 9 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 last decade, we have monitored extensively the operations of the EIB and led campaigns to make it a more sustainable, democratic and transparent institution.

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/ OUR MISSION

Making European public finance a key driver of a fair and just transformation into socially and environmentally sustainable and equitable societies and economies

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/ INTRODUCTION

The European Investment Bank (EIB), the financial arm of the European Union, has been seeking to position itself as a climate leader. A year ago, 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 setting in stone its transformation into the *"EU Climate Bank"*. The EIB has since then been tasked to play a central role in the financing of the European Green Deal and in the EU's economic response to the COVID-19 crisis.

At COP26, the EIB will likely be showcased as a key actor in the fight against climate change. But is the EIB really a climate leader?

The EIB can be rightfully applauded for deciding to stop its support of most fossil fuels back in 2019. Its Climate Roadmap in turn further entrenches its climate commitments and includes some additional measures, such as the decision to stop financing airport expansions. In that regard, the EIB can be considered as a leader in the climate field since it is surrounded by other financial institutions who still fall far behind.

The *joint initiative* by the Bank and the United Kingdom calling on *"governments and public financial institutions to stop supporting fossil fuels and instead prioritise international support for the clean-energy transition"* shows the consistency of the EIB's messages to the outside world following its own decision to ban fossil fuels lending.

However, the EIB still has a long way to go, since its Climate Roadmap does not ensure that the Bank will deliver on its commitments and truly align itself with the objectives of the Paris Agreement.

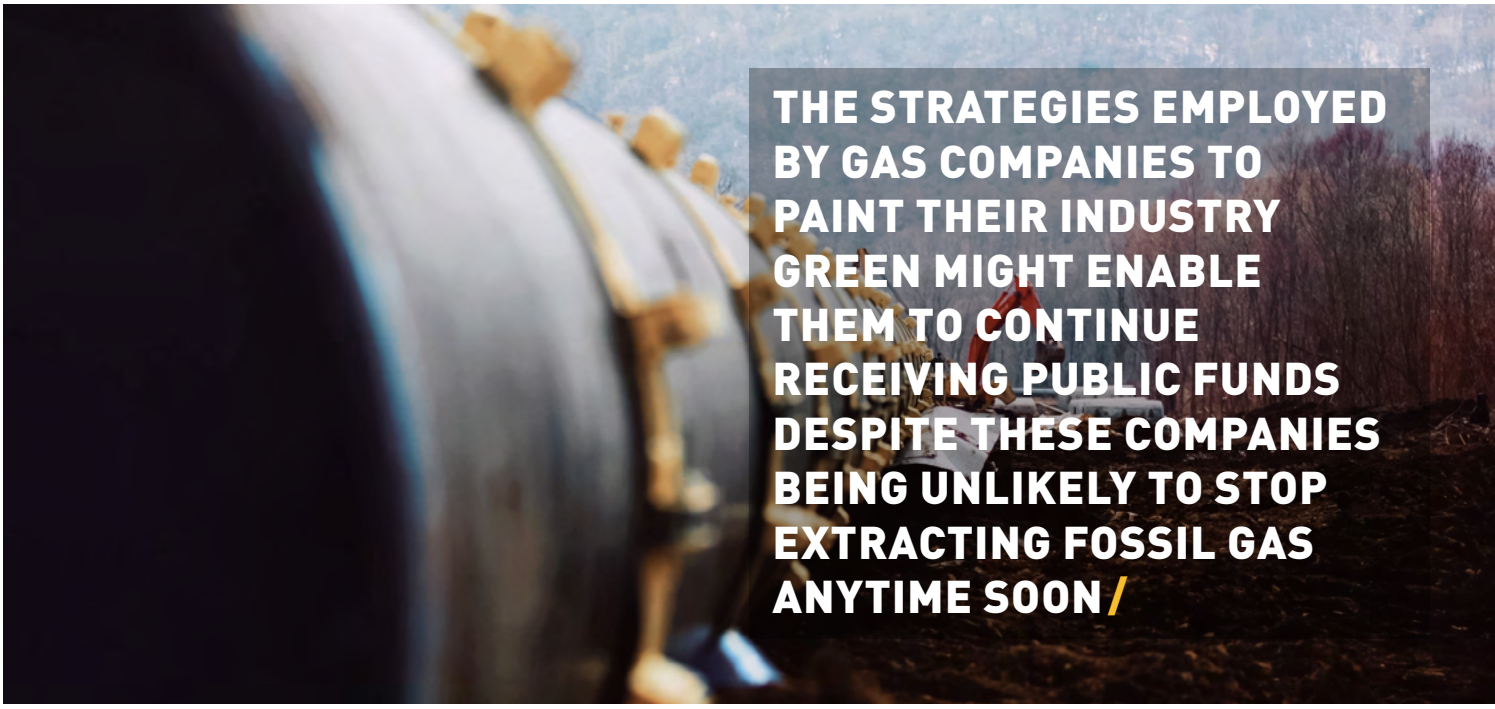
This paper highlights some of the core risks of greenwashing that the Bank is facing, and that need to be addressed if the EIB really wants to become a *"Climate Bank"*.

1/ THE RISK OF FINANCING FOSSIL FUELS THROUGH THE BACK DOOR

As far as energy is concerned, the EIB *"Energy Lending Policy"* adopted in 2019 is a key step forward. Under the policy, the Bank committed to end its financing for fossil-fuel energy projects by the end of 2021 and prioritise support to energy efficiency and renewable energy. Nevertheless, some important loopholes remain.

The 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 more than €915 million in gas infrastructure,contradicting its *"gas is over"* narrative.

Secondly, the 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 environmental benefits of these low carbon gases are highly uncertain. There is also no accepted definition or set of criteria to identify what gases are considered low-carbon and which ones are not. 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 production. This could allow the financing of 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.



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 also financed several hydrogen projects, including some recent projects in *Denmark* and *France*, and it also launched an *"Alternative Fuels Infrastructure Facility"*, together with the European Commission, to help attract additional financing for alternative fuels infrastructure, including hydrogen refuelling stations.

Many NGOs and think tanks have however warned that the new hype for hydrogen in the EU is a *dangerous distraction* that will risk increasing our reliance on all kinds of gas, including fossil gas.

Most hydrogen is currently produced from fossil gas, referred to as *"blue hydrogen"*. While *"green hydrogen"* hydrogen can be produced from renewable electricity, this technology is expensive and so far only exists in pilot project form and the potential for truly sustainable hydrogen production in the EU remains limited. According to the International Council on Clean Transportation, renewable gas (which includes hydrogen but also small-scale biogas) would meet *only 7% of today's gas demand by 2050, and only 6% of transport fuel demand if all production is used exclusively for transport*.

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.

2/ STILL INVESTING IN THE TRANSPORT OF THE PAST

Despite its climate commitments, EIB transport operations to date are not yet aligned with the objectives of the Paris Agreement. The Bank's approach to transport needs to *undergo radical changes* for it to be equipped to play a transformative role in the transition towards a low carbon future.

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.

While the EIB has shown interest in financing more climate-friendly projects, such as 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.

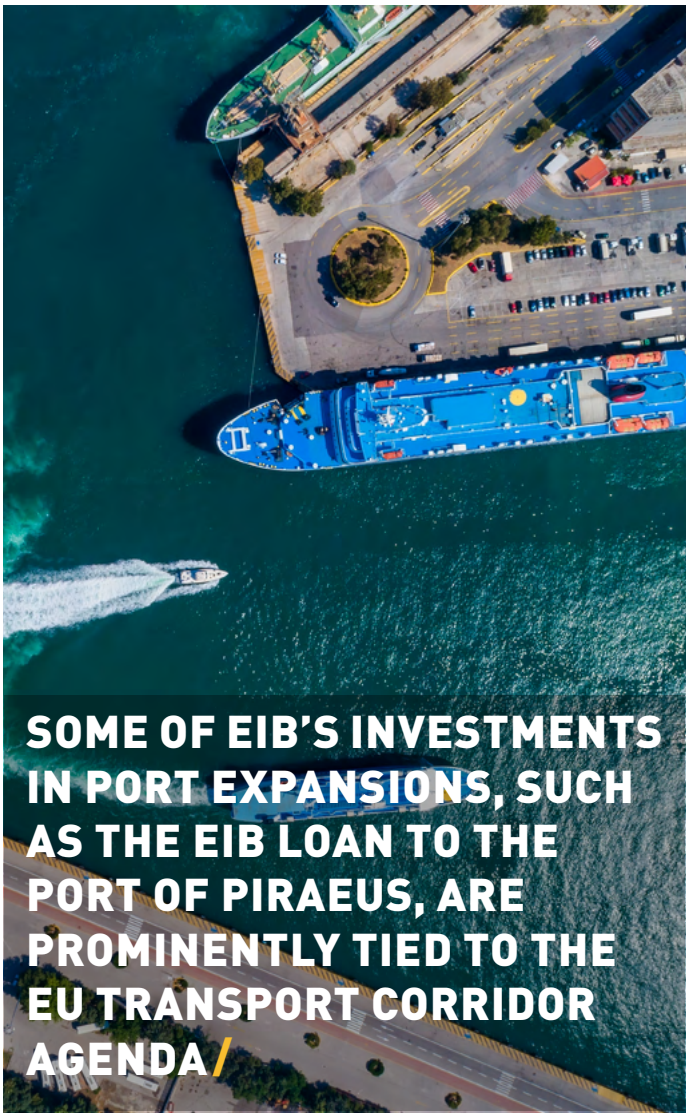
One area where more ambitious action is needed - and where the EIB has been unwilling to move – is in the support it provides to the road sector, especially highways and motorways.

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. In 2017, road transport was responsible for almost 72% of the total GHG emissions from transport at the EU level. Furthermore, the EU already has an extremely dense network of motorways and highways, many of which create severe problems of ecosystem fragmentation and even disruptions in environmentally protected areas – the Natura 2000 areas.

Still, the EIB refuses to end its support for motorways and highways capacity expansions, despite pressure from civil society organizations to stop such investments. Instead, the Bank only proposes a new carbon pricing and an 'adapted economic test', including via new demand forecasts. In doing so it expects that 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 uptake of electric vehicles it could simply mean the Bank would build more roads. Carbon pricing is also far from sufficient, since it does not take the impact on biodiversity into account. In addition, the choice of a technical tool to screen out carbon-intensive projects will make the monitoring and scrutiny of its implementation particularly complicated for external stakeholders. Past experiences in the energy sector are far from reassuring. Many detrimental gas projects were historically presented by the EIB as if they have a positive climate impact, despite going through its greenhouse gas emissions calculation tool.

The case of the *A49 motorway* in Germany is a recent example of damaging motorway projects financed by the EIB, that the new adapted economic test is unfortunately unlikely to rule out.



SOME OF EIB'S INVESTMENTS IN PORT EXPANSIONS, SUCH AS THE EIB LOAN TO THE PORT OF PIRAEUS, ARE PROMINENTLY TIED TO THE EU TRANSPORT CORRIDOR AGENDA/

The maritime sector is another area where further restrictions are needed. In particular, the EIB plans to continue supporting Liquefied Natural Gas (LNG), despite its commitments to stop financing fossil fuels and increasing research showing its very 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. Earlier this year, 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.

The EIB will also continue its support to port expansion and related infrastructure including the creation or extension of special economic zones. What is brought into question is whether an increase in global trade and cruise ship tourism, both of which are often the main rationale behind the Bank's maritime investments, can be consistent with the Paris Agreement objectives.

3/ BLANK CHEQUES TO BIG POLLUTERS

The Bank will present its *new Paris Alignment Counterparties framework* at COP26. The so-called *"PATH"* framework is a first step in the right direction compared to current practices at the EIB. Indeed, the Bank will now require high-emitting companies to have decarbonisation plans in place, or give 12 months for a company to develop such decarbonisation plans before a loan to that same company is adopted. This means that, in theory, the EIB should no longer finance projects of polluting companies if it continues activities that are not aligned with the objectives of the Paris agreement.

The framework however contains some significant loopholes. For instance, it still allows fossil fuel companies to receive funding for some specific projects. These include *"carbon capture, utilisation and storage , renewable hydrogen, advanced biofuels, deep geothermal and floating offshore wind"*.

The rationale behind this is that these companies are in a strong position to invest in such projects, but it also means more money will keep flowing to oil and gas companies even if they still plan to continue extracting fossil fuels.

The credibility of the decarbonisation plans presented by companies is also something that will need to be assessed carefully by the EIB, as *many of the "net-zero" pledges presented by carbon-heavy companies are unfortunately empty shells*. In addition, via its new PATH framework, the EIB does not foresee mechanisms to suspend loans when a client does not respect the targets they have set in their decarbonisation plans.

Last but not least, the framework 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 so-called 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 risks of climate change, following the standards set by the *Task Force on Climate-Related Financial Disclosures*. The actual content of this disclosure would however not matter for the EIB as it could still give funds to financial intermediaries that are far from Paris Aligned and do not have any credible plans to do so.

In that regard, a big chunk of the EIB's operations still cannot be considered as Paris Aligned, since financial intermediaries - which represent a third of the EIB's portfolio - are being left out.

THE EIB RECENTLY APPROVED A LOAN OF €280 MILLION TO ARCELOR MITTAL, THE WORLD'S LEADING STEEL AND MINING COMPANY AND HEAVY POLLUTER, TO SUPPORT ITS DECARBONISATION OBJECTIVES. IT WOULD BE INTERESTING TO KNOW WHETHER THIS LOAN WOULD PASS THE NEW BANK'S COUNTERPARTY ALIGNMENT FRAMEWORK /

4/ BUSINESS AS USUAL IN THE BIO-ECONOMY AND AGRICULTURE SECTOR

The EIB's current safeguards in the bioeconomy, agriculture and land use sectors remain insufficient to prevent projects that worsen the climate crisis or harm biodiversity. In particular, the Bank did not propose explicit restrictions for industrial farming and the burning of forest biomass for energy.

Using biomass for energy is often promoted as a solution to curb emissions, but the reality is that burning forest biomass is *just as bad for the climate and the environment as burning fossil fuels*. Burning forest biomass actually increases CO2 emissions per unit energy, relative to fossil fuels, and degrades crucial carbon sinks.

In the field of agriculture, the EIB has been mostly supporting big agricultural businesses, including companies engaged in monocultures, genetically modified seeds, synthetic fertilizers and pesticides. In Morocco for instance, the EIB financed a fertilizer company accused of *heavily polluting the environment and harming workers and local communities*. If the EIB is serious about becoming the *"EU Climate Bank"*, it should stop funding large agribusiness and instead redirect its investments in locally-controlled food systems and agroecological farming which are less dependent on external inputs and do not contribute to ecosystem destruction.

5/ THE RISK OF THE FINANCIALIZATION OF NATURE

Putting a price on nature is increasingly being promoted as an approach to address pressing environmental issues. Nature is becoming conceptualized as a collection of *"natural capital"* assets that provide ecosystem services which can be measured and monetized.

While often framed as the best or only approach for environmental protection, pricing natural systems has become a means for promoting the privatisation and financialisation of nature and creating new ways for the financial sector to continue earning high profits.

In the last decade, the EIB has been trying to show that public banks can lead the way in investing in natural capital. The EIB has for instance been at the forefront of carbon market development for example through its support for REDD+ via the *Althelia Climate Fund*, an investment fund that aims to profit from payment for ecosystem services, including carbon offsets from forests.

Experiences of compensatory approaches have shown that ***offsetting tends to weaken environmental protection***. In practice, offsetting bears considerable difficulties, many of which are ***insurmountable due to financial, environmental, social and governance realities***.

Carbon and biodiversity offsetting also tends to perpetuate injustices, with evidence revealing multiple cases of land grabbing, community displacements and human rights abuses.

The EIB therefore should finance projects that mitigate climate change, build resilience and do no harm, while refraining from entering the new business of offsets and payments for ecosystem services.

Illustration: Lindsay Noble Design

/CONCLUSION

While the EIB has made progress in recent years, there is still work to be done before it can deserve the title of a climate leader. For the EIB to genuinely become the *"EU Climate Bank"*, it is of utmost importance that all of its operations, sectors of activities and clients become aligned with the Paris Agreement objectives.

Important opportunities still exist to push the Bank further. The EIB is currently reviewing its Transport Policy and its Environmental and Social Sustainability Framework, where significant steps have to be taken to ensure that the EIB only funds projects that do no harm to people and the environment.

Next year will also be the mid-term review of the EIB's energy policy.

Follow-up work is 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 projects and low-carbon gases - and to push for further restrictions on forest biomass.

More fundamentally, there is a need to ***rethink public finance and the type of green projects that are being pursued***. The EIB should support a more decentralised approach to a climate transition, by supporting community-led initiatives and small-scale projects in energy efficiency, building renovation, decentralized renewable energy sources, circular economy and other forms of infrastructures that are connected to the needs of citizens and territories.