

Briefing for the EIB Board of Directors for the seminar with civil society organisations on 30 January 2017

Making the EIB finance consistent with the pathway towards low greenhouse gas emissions development

Dear Board of Directors,

We appreciate having again the opportunity to discuss with you the Bank's support to the energy sector given the changes in the EIB's own policy framework after adoption of its first Climate Strategy in 2015 and important developments in the world after adoption of the Paris Agreement the same year.

We welcomed the EIB's commitment to support implementation of the Paris Agreement, including its long-term goals¹ and related initiatives such as harmonization of the climate finance tracking and carbon footprint methodology with the other Multilateral Development Banks, as well as announcing an update of both its carbon footprint methodology and Emission Performance Standard. To be able to provide most possibly relevant inputs, **we call on the EIB to immediately publish its nine action plans derived from its Climate Strategy** finalized 15 months ago, as we are currently kept blind in that respect. We would indeed be pleased to submit inputs to these action plans.

The EIB can contribute to the overall climate protection aim to keep temperature rise well below 2°C only if it ensures coherence between its various operations in support of the EU policy objectives. The challenge of renewable energy transition away from fossil-fuels goes beyond the Bank's commitment to Climate Action. Streamlining climate considerations into the full EIB portfolio must rather be pursued equally across different sectors and regions of operations and it means supporting infrastructure which serves the needs of citizens in a cost-effective way and is consistent with climate and energy objectives at the same time.

- **Align the EIB portfolio with the well below 2°C target**

The Article 2 of the Paris Agreement calls on "*Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development*".

There is thus a **critical need for science-based targets and metrics** (and underlying methodologies) that show, by asset class and transaction type, how "green"/"brown" the EIB portfolio can be while still meeting the needs of the global energy transition at a given point in time (e.g. 2020, 2025, 2030). Research is underway by various organizations to create such methodologies, and some tools are already available - for example the open-source Sustainable

¹ In the Paris Agreement, governments committed to "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels"

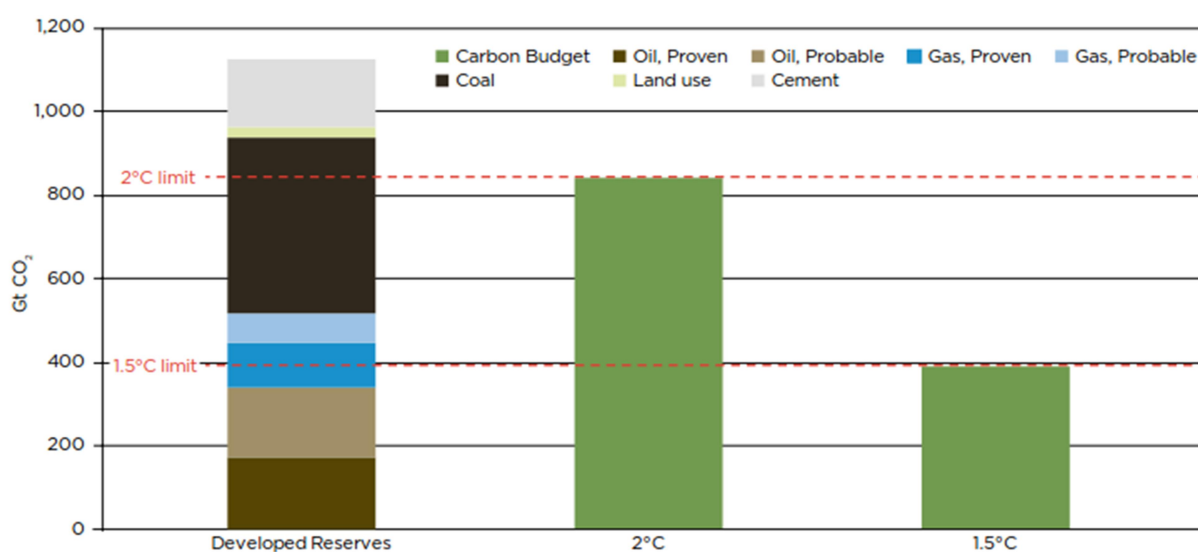
Energy Investment (SEI) metrics methodology². The EIB should dialogue with relevant organisations in order to set up such a missing tool as soon as possible: indeed, **random project support has no chance to lead to well below 2°C alignment**. The Bank should therefore move to well below 2°C alignment targets and methodologies as soon as possible.

Simultaneously, the EIB should actively support the development of a complementary tool: **national capital raising plans for Member States, as part of their National Climate and Energy Plans (NCEPs)** - required by the forthcoming Energy Union's governance framework. Such capital raising plans would provide much more visibility to the Bank to identify the most needed type of projects in a given country and those that are counter-productive to achieve the transition.

- **Phase out support for fossil fuels before 2020**

The latest climate science makes it increasingly clear that the majority of known fossil fuels reserves must not be burnt if we want to keep the global temperature rise well below 2°C³ and no new fossil reserves can be exploited in order to achieve either the 1.5°C or 2°C target.

Figure a. Emissions from developed fossil fuel reserves plus projected land use and cement manufacture



Sources: Oil Change International, Rystad Energy, IEA, World Energy Council, IPCC

The reserves in *already operating* oil and gas fields alone, even with no coal, would take the world beyond the Paris Agreement target of +1.5°C.

² The open-source SEI metrics methodology is developed by a research consortium led by the think tank 2° Investing Initiative. It makes it possible to assess the 2°C alignment of public equity and corporate bonds portfolios (based on the 2°C scenario from the IEA) for key sectors like oil&gas, power, automotive, etc. The methodology has already been road-tested by a hundred investors globally with very positive feedback.

³ McGlade & Eking, University College London (2015), [The geographical distribution of fossil fuels unused when limiting global warming to 2°C](#), in Nature and Oil Change International (2016), [The sky's limit](#)

Thus it is urgent that investment in new fossil fuel infrastructure is completely ceased as soon as possible if we are to keep within the targets set in Paris. However, since the Bank revised its Energy Lending Criteria in 2013, the support to fossil fuels based infrastructure has remained at a high level totaling EUR 8.5 billion while at the same time the EIB still lacks a methodology for checking the compliance of its operations with long term climate objectives. It is also concerning that by the end of 2016 the European Fund for Strategic Investments (EFSI) had granted EUR 1.8 billion to fossil fuel infrastructure projects, mostly gas, leveraging at least EUR 5 billion in additional investments into such infrastructure. These operations were approved without being scrutinized on the merit of their compliance with the EU 2030 and 2050 climate and energy frameworks.

- **Gas infrastructure risks becoming a stranded asset**

The majority of EIB's investments in fossil fuel energy infrastructure is gas infrastructure, which has received around EUR 17 billion since 2007; further EUR 3 billion is being considered as contribution to the Southern Gas Corridor. This infrastructure has been financed with the objectives to ensure security of supply and to enable the shift from more polluting fuels, bringing environmental benefits. In 2016 the Energy Union Choices research consortium, including energy consultants Artelys and Climact, modelled different gas infrastructure strategies against a range of demand scenarios and potential shocks and disruptions⁴. They concluded that Europe's current gas infrastructure is sufficient to ensure energy security, even in extreme disruption cases. In Europe forecasts for gas demand have been consistently overestimated in recent years by the European Commission, the European Network of Transmission System Operators (ENTSOG), Eurogas, the International Energy Agency and oil and gas enterprises. **New gas infrastructure is planned solely on the basis of a presumption of rising demand; projects are not tested against scenarios in which energy and climate targets are met.** If Europe meets its 2030 and 2050 targets, gas demand in Europe will sharply reduce – making new gas infrastructure superfluous. It therefore casts strong uncertainty on the actual need and the economic viability of the vast majority of these new gas infrastructure projects.

- **Gas is more carbon intensive than previously thought**

According to the EIB's Energy Lending Criteria, in the medium term, substituting coal with gas is expected to help the EU achieve its climate policy objectives and hence is considered critical for the transition of the EU energy system towards a low-carbon economy. However this assessment was based on the false and inaccurate assumption that methane is 21-times more potent than CO₂ as a greenhouse gas. According to most recent science, fossil gas contributes to climate change in a much more significant way than previously thought. According to most recent science, fossil gas which is composed mostly of methane and which is found to be leaking at many different levels of the fossil gas lifecycle significantly contributes to the

⁴ Energy Union Choices (2016), [A Perspective on Infrastructure and Energy Security in the Transition](#)

acceleration of climate change. In 2013, the IPCC updated its data and stated that methane is 86-times more potent over a 20-year period, and 34-times over 100 years.

Lifetime gas leakages should not be underestimated. For conventional fossil gas, the scientific community now commonly agrees that between 3.6% and 5.4% of the lifetime production of gas wells is emitted to the atmosphere⁵. Therefore it calls for updating the Bank's Energy Lending Criteria with more realistic – lower - gas demand projections and most recent scientific data on methane's global warming potential.

- **Put energy efficiency first**

Despite its leading position as an energy resource, energy efficiency still has a large untapped development potential. According to the International Energy Agency a doubling of the current investment in energy efficiency is needed to limit global temperature rise to 2°C⁶.

The EIB already supports energy efficiency through a number of instruments and we shall also see an increased EFSI support for this sector. However implementing the energy efficiency first principle implies considering the potential for energy efficiency solutions in all decision-making related to energy, to be able to make informed investment choices, by comparing energy efficiency and energy supply options and only approving projects which would make most sense in an energy efficient economy. The EIB lends to individual projects for which total investment costs exceed €25 million, which is why the project appraisal provides a unique chance to lead the way in applying the energy efficiency first principle. From a financial point of view, some projects would not make sense in an energy efficient scenario. The EIB can only have a coherent climate change strategy if it puts energy efficiency first, redresses its bias towards energy supply investments and allows stakeholders such as energy users and service providers to benefit from a growing energy efficiency market.

- **Review the Energy Lending Criteria and Transport Lending Policy**

We welcome the Bank's announcement to review its Emission Performance Standard (EPS) which is a long expected move. The International Energy Agency stated that we need to reach an average 100 g CO₂/kWh over the next two decades to reach climate stabilisation. The current level of the EIB EPS at 550 g CO₂/kWh is neither consistent with the EU 2050 climate target nor with the Paris Agreement. Deeper adjustment is needed from the Bank: it needs to build in the objective of the clean energy transition into its Energy Lending Criteria which now needs a review and alignment with the Paris Agreement. Furthermore, the EIB Transport Lending Policy from 2011 is even more obsolete and requires review and alignment with the EU Low Emission Mobility Strategy.

⁵ Miller et al, 2013, <http://www.pnas.org/content/early/2013/11/20/1314392110.abstract>, Brandt et al, 2014 <http://www.sciencemag.org/content/343/6172/733>

⁶ International Energy Agency 2015 [Energy Efficiency Market report 2015](#)

Signatories

CEE Bankwatch Network

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Counter Balance

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