"Some remarks about the European Investment Bank's contribution to the policy concerning Climate Change"

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The European Investment Bank traditionally requires projects to meet strict financial and economic criteria, taking both efficiency and externalities into account (e.g. we price emissions in assessing power generation projects).

The EIB traditionally finances projects that contribute to **energy efficiency** (e.g. municipal district heating systems; social housing rehabilitation programs).

Furthermore, the Bank has always been financing **public transportation** projects. Public transportation, in particular rail, is not only more energy efficient, but also has significant potential for emissions reduction. The difficulties in promoting public transportation are well known, and success requires a mixture of budgetary, regulatory and tax instruments.

More recently, the Bank has adopted a specific target for **renewable energy (RE):** at least EUR 800 million for renewable projects. Moreover, 50% of EIB lending to electricity generation will be associated with RE technologies. We follow a broad approach promoting in a neutral way the best available technological solutions.

The concentrating–solar-power industry is one pertinent example that the EIB is actively supporting. For the time being two competing technologies are being developed in parallel at a first commercial scale. Both technologies have the potential, once deployed on a sufficient scale, for costs to be reduced to a competitive level. However, the current unit production costs are still high and require heavily subsidized tariffs to make them financially viable. In both cases, the projects have benefited from EU grants, small in volume but crucial at an early stage of development. The EIB has decided to finance projects in both technologies and to let the market make the choice at a later stage.

What about Carbon Capture and Storage (CCS)?

In the case of CCS, the process of capturing, transporting and storing carbon is an expensive, technically challenging exercise, which is not compensated for by the market – indeed carbon emissions are an externality that for the time being represent a very small financial cost.

Viable technologies exist but at a pilot scale. Very significant investment in large-scale demonstration plants will be required to introduce CCS technology widely and to bring the process down to a cost level that could realistically be introduced in the developing world. We intend to finance these demonstration plants.

In addition, there is likely to be a need for concerted action to build a system of pipelines for gathering CO2 and transporting it to final storage locations, be this in saline aquifers, depleted oil and gas fields or other repositories. Although developing CCS will provide some genuine economic benefit to the companies concerned, the process is subject to the classic R&D dilemma that the benefits will not be captured by the developers but will be available to the global community. It is unlikely for it to be made a priority, unless encouraged by either regulatory or financial support.

EIB recognizes the critical importance of **involving private sector participants** in the development and deployment of new technologies. Private sector involvement would contribute at the same time to climate change and economic growth. To this purpose, the EIB has joined forces with the Commission to develop new financial instruments.

One such current and significant example is the joint instrument set up by the EIB and the European Commission called the Risk Sharing Finance Facility (RSFF).

RSFF is an innovation by itself: It combines EUR 1 billion from the EU budget (through FP7) with another EUR 1 billion from the EIB surplus to leverage loans for Research, Development and Innovation in Europe, notably in the energy sector.

RSFF extends EIB lending under the Lisbon Agenda into the particularly crucial but also more difficult range of sub- or low investment grade loans. Quite apart from the financial value added provided by the EIB, it can also play an important catalytic role in providing confidence and sharing risks with other fund suppliers, including the commercial banks.

EIB is also cooperating with other financial institutions on Kyoto/ ETS schemes.

The EIB has set up separate joint facilities with the EBRD, the World Bank and now with the KfW to finance the trading of carbon rights under ETS so as to facilitate companies and institutions that need to meet their carbon obligations. The overwhelmingly positive response by Member States and by private sector companies shows that these facilities address real market failures.

One of the more important initiatives now underway, by the EIB in collaboration with a number of IFIs and other national institutions, is planning for the establishment of a Post 2012 Carbon Fund. It will underpin the market value from current and future projects that will produce Carbon Emission Rights after the expiry of the current Kyoto Protocol in 2012. The purpose of this fund is to encourage and facilitate investment in projects, which will give rise to carbon credits by investing “patient and catalytic public sector funds”. Such fund is particularly important during this period of high uncertainty, in the EU as well as internationally, as to what will follow the Kyoto Protocol. Again, I would like to record the Bank’s appreciation for the constructive attitude taken by the European Commission in supporting this initiative.

The EIB is also continuing to work intensively on the financing of projects that generate carbon credits throughout all countries in which the EIB has a mandate. Our Climate Change Technical Assistance Facility provides upfront funding for activities associated with the development of these projects.