Climate Action Network Europe response to the Public consultation on EIB's approach to supporting climate action

March 2015

Climate Policy is also good economic policy and thus should guide all the EIB's activities

The European Union already in 1996 decided to strive to keep global average temperature rise below 2°C. In order to make this happen, the European Council agreed to reduce greenhouse gas emissions by 80% to 95% by 2050 and by at least 40% by 2030. Climate Action Network Europe, based on scientific literature as well as on equity considerations, is convinced that the EU will need to achieve the upper end (or even more) of the 2050 target and go well beyond its 2030 target.

To do so, the EIB has a crucial role to play to steer investments in the right way. Today, the world is at a crossroads. The EU has a choice to radically shift its investments away from high-carbon, high-pollution options, or it can choose into a low-carbon, high-technology sustainable model. In making this choice, political leaders are rightly concerned about economic performance in their countries. After all, Europe has not fully recovered from the worst economic crisis in generations, and many countries are facing slower growth. However, we can no longer use the threat of lower economic growth as a reason not to act together against climate change. The "Better Growth, Better Climate" report from the Global Commission on the Economy and Climate shows that we can tackle climate change and grow our economies at the same time. We do not need to choose one or the other. We can – and must – have both. This is now possible in part because of new technological developments and human ingenuity that have radically reduced the costs of clean alternatives, well beyond what anyone predicted. And this will continue to open up new opportunities for transformative change in coming years.

To achieve this transformation, all investments will need to be directed to achieving this low-carbon transformation. The EIB can play a crucial role in doing so. If we start now, the investments needed for a low-carbon economy could cost about the same as those for a high-carbon, inefficient and polluting economy. But to achieve that, we need decided and consistent policy signals from public investment institutions.

In our opinion, this climate policy review should result in the development of a fully-fledged Climate Policy encompassing all sectors and lending instruments of the EIB, including direct lending to projects, EIB’s participation in investment and equity funds as well as the lending to
financial intermediaries for on-lending to small and medium enterprises and Mid-Caps. The review should ensure that the EIB’s portfolio is compatible with the European Union’s objective to keep temperature below 2°C. And it should take into account the cumulative climate implications of its entire portfolio and of some of the sectors within it.

Reducing the EIB’s climate impact and reviewing its carbon footprint assessment

The result of an ambitious and thorough revision of the Bank’s approach to climate protection would be to ensure all the Bank’s activities support the decarbonisation of our society. **This translated into EIB Climate Policy would need an absolute (not relative) emission reduction of the whole EIB financed portfolio** in line with the objective to keep temperature rise below 2°C, and this in all sectors where the EIB is present (transport, energy generation, energy transmission, industry, SMEs, intermediary lending) and both within and outside the EU-28. Ambitious as it may sound this is the only rational policy that the EIB can adopt that would bring both short as well as medium and long-term benefits for the EU economy as well as prevent European citizens from the impacts of dangerous climate change.

As part of the EIB Climate Revision the Bank should come up with examples of the types of projects (like energy efficiency) that do contribute to all the policy objectives of the EU and thus should be supported, but should also provide examples of projects that should no longer be funded. This list should include the most polluting sources of energy generation, the most climate harmful mining practices (i.e. oil, lignite and coal extraction) and processing (refineries) as well as include clearly defined limits for the amount of LNG terminals, highways and airports that the EIB is able to finance between 2015 and 2020 while still staying within the decarbonisation pathway. The currently used methodology for assessing projects' carbon footprint needs further review and strengthening. For example the EIB does not count the whole project’s CO2 emissions, but only a proportion according to how much of the project it financed although its financing often determines a project’s realisation. For gas pipelines, the exclusion of the actual combustion of the gas delivered by the new pipelines is negating the real impact of these investments.

It is also necessary to cover EIB’s support to financial intermediaries with the carbon footprint methodology.

The need to divest and avoid stranded assets

Currently, companies involved in oil and gas extraction and coal and lignite mining are valued based on the assumption that all the reserves on their books will be burned. This is at odds with the science of climate change and with the EU’s 2°C objective, thus creating a risk of a so-called

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1 As opposed to the current approach of treating climate action as a separate part that encompasses just around 25% of the EIB lending
carbon bubble. If the EU’s climate commitments are upheld and other global players agree to stabilise the rise of GHG emissions to below 2°C, then 80% of the fossil fuel reserves now on the books of fossil fuel companies cannot be burned – their de facto value should thus be zero, whatever the current valuations may be.

This poses a systemic risk not only to these companies that will face a loss of value but also to any financial institutions holding their assets in the form of equity or bonds, or that are exposed to these companies in any other form.

Further loans to companies extracting fossil fuels, constructing or operating fossil fuel enabling infrastructure (including refineries, roads, airports and ports) or using fossil fuel generation or heating facilities only exacerbate the risk of a carbon bubble further. The EIB must address this risk in its Climate Policy and it must devise a new pattern of lending that reduces the carbon bubble risk.

In addition, the EIB should include fossil fuel investment data in its reports and oblige its financial intermediaries to do the same. The EIB must also declare its target for divesting the Bank’s funds from fossil fuels and assist financial intermediaries institutions with developing a divestment target and disclosure practices.

**The efficiency first principle**

The European Commission, in its recent communication on the Energy Union (COM(2015)80) calls for a fundamental rethink of energy efficiency, treating it as an energy source in its own right, representing the value of energy saved. The Commission will ensure that energy efficiency and demand side management can compete on equal terms with generation capacity.

The EIB needs to get on par with the Commission efforts in this area, by ensuring energy efficiency is treated equally to any other source of energy. This means that measures to reach the energy efficiency potential need to be taken into account before any new energy generation or distribution project is started.

Efficiency First is an organizing principle by which demand-side measures are considered on comparable economic terms with supply-side resources in energy sector planning, investing, and purchasing. It also ensures that whenever demand-side measures are shown to be less expensive or more valuable than their supply-side alternatives, they should be deployed first. In this way, an Efficiency First approach avoids the lock-in of unnecessary and more expensive resources, and ensures that energy needs are met with the cheapest and cleanest alternatives available.²

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Efficiency First also recognizes that there are barriers to efficiency that prevent its uptake – even where efficiency is cost-effective for consumers or society as a whole. Overcoming these barriers requires a combination of public funding incentives and regulatory mechanisms. Achieving the efficiency potential requires a high-level commitment to systematically identify the multiple decision points where efficiency is overlooked or undervalued, and put in place concrete policies and measures to ensure that investments happen wherever efficiency is more cost-effective or valuable than equivalent supply-side resources.

An important part of the implementation of the efficiency first principle is the consideration of and support for demand-side management measures. The role of the EIB here is especially prominent given the importance of the bank in lending to energy infrastructure projects. While pursuing the efficiency first principle the EIB must ensure that demand side management is a main feature of design of any such project.

**Tools to achieving ambitious EIB Climate Policy**

In conclusion, the reviewed EIB Climate Policy must include:

- A clear commitment to steer investments away from high-carbon development pathways towards a low-carbon economy;
- An obligation to periodically review the Carbon Footprint Methodology;
- The adoption of a cap on the EIB’s annual emissions from projects, and;
- Establishment of a roadmap for a gradual but constant increase of investments in energy demand reduction and renewable energy deployment.

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*Climate Action Network Europe* is Europe’s largest coalition working on climate and energy issues. With over 120 member organisations in more than 25 European countries, CAN Europe works to prevent dangerous climate change and promote sustainable climate and energy policy in Europe.