Reply of the CEZ Group to the public consultation on EIB approach to supporting climate action

CEZ Group welcomes the opportunity to express its opinion on EIB approach to supporting climate action.

Theme 1:

Is a volume-based lending target an appropriate climate action target for the Bank? Is the current list of eligible projects in the sectors targeted for EIB Climate Action fit for this purpose? How should the Bank’s climate action lending target evolve over time to reflect global policy development?

When discussing the appropriateness of a volume based lending target for climate action, an issue of flexibility of transfers of funding among policy priorities covered by the Bank shall be raised. For the sake of efficiency, a certain level of flexibility is desired as it enables the Bank to manage a possible gap between supply (the Bank) and demand (clients). To a large extent, the emergence and size of such a gap influence the development of external economic environment. In case of climate change, price development of carbon matters, especially when economic ratio is taken into account. Simply put, low carbon price (whether due to economic downturn or regulatory impact) means weak demand for low carbon measures. In that case, the Bank should be able to shift idle funds to other policy priorities. From this perspective the absolute volume is irrelevant.

Regarding the list of eligible projects, the discussion should start over the current set of activity types or sectors (renewable energy, energy efficiency, sustainable transport, research and development, forestry and land use). So far, substantial support was subscribed to renewables, both mature and emerging ones. This happened at the top of the generous support provided for this sector by Member States. In a number of States, such overcompensation resulted in out-of-control deployment of RES challenging both national economies as well as citizens (via the final price of electricity). Moreover, the environmental benefit (GHG avoided) is also questionable, both due
to the life cycle assessment of RES installations as well as their intermittence requiring back up capacities. Our recommendation thus is to redirect the support from RES to modernisation of energy systems, energy efficiency etc.

As mentioned above, lending target should follow the development of a carbon price. The lower the market price of carbon, the higher the gap between the market and the economic / shadow price of carbon, the higher incentive needed to mobilize low carbon measures. Furthermore, the higher the gap, the higher risk of postponing mitigation which results in a more costly adaptation over time.

**Theme 2:**

*Based on its existing business model and taking current market constraints into account, how can the Bank further improve the solutions it is providing to foster more climate resilient low carbon growth, both within and outside the EU? What role should technical assistance and increased channelling of EU grants through the EIB play?*

The existing business model, both in terms of targeted activities, targeted groups as well as instruments used needs to be more coherent with the economic reality. Once again higher flexibility of the Bank to allocate funding across its portfolio activities depending on actual supply /demand is desired. Even in case of very favourable lending/granting conditions provided by the Bank, the response might be quite limited.

Within the 2030 framework, the channelling role of the Bank is expected to increase significantly. It means that, due to persisting structural as well as institutional barriers, its capacity to implement investments might be limited. Simplification of the appraisal procedure together with increased technical assistance may be a starting point to tackle the implementing limits.

**Theme 3:**

*Based on its experience with support for venture capital funds, RSFF/InnovFin and NER300, how can the Bank increase its support for European RDI and emerging low carbon technologies? How can energy-intensive industries that invest in innovation addressing lower carbon industrial processes be best supported?*

All tools mentioned in the question are to be an important part of dissemination of low carbon technologies. However, building on the lessons learnt on NER300, the support should be decided strictly upon the abatement potential and technology neutrality of the projects. Any political preferences (as was the case of CCS) should be omitted.

For any industry supposed to comply with carbon regulation the decisive factor is predictable, stable and transparent price of carbon. The Bank thus should develop a measure that would mitigate risk of low carbon investment associated with sudden/structural price shocks.
Theme 4:

How can the Bank most effectively support additional private sector investment in low carbon, resource-efficient, climate resilient technologies? What sort of financing structures should be supported to best catalyse private sector finance? Is the current EIB product portfolio appropriate to meet climate finance needs? How can the Bank best employ the joint Commission-EIB blending facilities, innovative financial instruments and advisory services in support of climate action projects?

Regarding investment decision making process, private sector tends to respond to market signal where exists. If the carbon price remains flow, the only stimulus for private sector low carbon investments are accompanying benefits, e.g. higher energy or resource efficiency, other pollutants abatement potential, etc. Therefore, the greening potential (e.g. set EPS) should not be the only (or decisive) criterion for the Bank to choose eligible projects (the Bank should also significantly expand the list of these projects and regularly update them).

As for EIB product portfolio, the Bank shall enable as broad accessibility to its funding as possible. Blending with the Commission should make the lending even cheaper, however, shall not be impaired by unnecessary administrative burden. Moreover, according to the feedback from borrowers, the Bank should broaden its portfolio of currencies in which lending is provided (i.e. multi-currency lending) to eliminate the risk of a drop in attractiveness due to the exchange rates. Not to mention an option to decrease the administrative burden for clients, namely to simplify credit documentation.

Theme 5:

How can the Bank make better use of the project or sector level GHG results to better inform its internal decision-making process? Does the current approach of the Bank, to integrate a price of carbon into the economic appraisal of a project, adequately reflect issues such as carbon lock-in? How can the Bank further improve the EE and climate resilience of the projects it supports?

 Gathered project or sector level GHG results significantly enhance the Bank’s expertise in the field of low carbon technologies. This decreases the information asymmetry and enables the Bank to tailor its products to the needs of its clients. However, setting to strict EPS or BATs cannot prevent form carbon lock-in when the price of carbon is too low. So the Bank should create a tool that can bridge this gap (as mentioned above, take into account further criteria in the project appraisal).

Theme 6:

Building on its strong institutional position, how can the Bank improve its outreach on climate action issues to civil society, think-tanks, academia and the business community?

While fully recognising that the Bank is subject to the normal operating constraints of financial institutions, it is also true that the Bank was entrusted to act as an agent of the Commission in case of NER300 initiative. That unique role authorises the Bank to actively act in favour of the recovery
of the ETS system. As mentioned above, solid carbon price is the imperative to economically and environmentally efficient low carbon investment. At the same time, across the majority of think-tanks, academy, business and civil society, there is a consensus on the urgency to recover the price of carbon.

Theme 7:

*How could the Bank continue to develop its leadership and collaboration with other multilateral development banks and international financial institutions to better support the international climate finance debate and negotiations? What partnerships should the Bank develop in mobilising the UN-pledged USD 100bn annually by 2020 to support technical assistance and funding for mitigation and adaptation projects in low and middle-income countries?*

The ability of the Bank to develop further both its leadership and collaboration with other financial agents within the international climate finance will depend on its capability to attract private sector that means to restore the trustworthiness of market price signal of carbon. Together with the others the Bank should actively promote (via its expertise and technical advice) the emergence and linking of carbon markets worldwide as envisaged initially. As for the adaptation the Bank should finds its role to supplement the activities of the World Bank.