Response
of the Federal Government of Germany
to EIB Consultation Paper – EIB approach to supporting climate action of 12th January 2015

The German Federal Government would like to contribute to the discussions with some general
statements on the Bank’s climate policy paper and refer to the questions raised therein.

• In its 5th Assess Report, the IPCC has recently confirmed that maintaining a likely chance of
limiting global warming to less than 2°C requires the global community to reduce
greenhouse gas emissions in all sectors by 40-70% by 2050 compared to 2010 and to phase-
out greenhouse gas emissions almost completely by 2100 – in the EU and beyond. The global
energy sector plays a key role and must be decarbonized by the middle of this century
already.

• The European Council has set ambitious targets for energy and climate policy until 2030,
which are in line with these long-term decarbonisation objectives. In October 2014 it was
agreed to reduce domestic GHG emissions by at least 40% compared to 1990 levels, to
increase the share of renewable energy consumed in the EU to at least 27%, and to improve
energy efficiency by at least 27% compared to projections. The European Council in October
also confirmed the urgent need to meet the targets for greenhouse gas emissions,
renewable energy and energy efficiency in 2020. Moreover, in June 2014 the European
Council reaffirmed the agreed ambitious EU objective for 2050 to reduce GHG emission by
80-95% compared to 1990 levels.

• Climate finance is an important means for financing this transformation in the EU and
beyond. In addition to the provision of dedicated climate finance, however, the need to
move towards low-carbon and climate resilient societies and economies needs to be
mainstreamed across investment portfolios, particularly those of public investors.

• Between 2009 and 2013 the European Investment Bank (EIB or the Bank) has invested more
than 88 billion Euros in climate related action. The Bank is committed to a 25% minimum
volume target on climate related lending. In order to achieve the EU’s 2030 energy and
climate objectives and to increase energy security, significant additional investments for
climate protection are necessary, especially in the energy sector compared to the current
framework. This can be achieved by scaling down funding for projects that further increase
carbon lock-in and instead providing more finance for dedicated climate protection
measures.

• The EIB’s call for public views on their approach to supporting climate action serves to
develop a climate strategy for the Bank’s lending activities which need to take long term
decarbonisation targets into account. The EIB needs to develop a forward looking strategy to
be applied across its investment portfolio which fully takes into account the long term
energy and climate targets of the EU and reflects the target of keeping global warming
below 2° C. This is especially important as EIB finances projects of long lifetimes, e.g. in the
energy or transport sector.

• A swift deployment of renewable energy, the development of innovative energy efficiency
markets, and the expansion of intelligent grid infrastructure need financial support from
public and private actors. The EIB’s strategy on supporting climate action needs to be fully coherent with the short (2020), medium (2030) and long (2050) term energy and climate policies set by the European Council and with the internationally agreed objective of limiting global warming to below 2°C. It needs to set incentives for sustainable investments and reduce investment risks and barriers in order to reach a structural reform towards a low carbon energy system. Such a strategy must not only streamline climate criteria across its portfolio, but also consider a phase out of lending for non-sustainable projects, e.g. fossil fuel extraction and power generation and other greenhouse gas intensive infrastructure.

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?

- Generally, a volume-based lending target is a valuable instrument to ensure the Bank’s commitment to dedicated climate action lending. However, as the Bank depicts, reaching this target depends very much on amount, size, and quality of projects submitted to the Bank and is often reached by only a fraction of projects. Being a relative target out of the Bank’s absolute portfolio, the actual amount of lending on climate action might be reduced from one year to another, e.g. as it was the case between 2010 and 2012. A minimum volume of lending for climate action could be set as a sub-target.

- We would also like to emphasize that in addition to a volume-based lending target for dedicated climate action, the Bank needs to mainstream climate considerations across its portfolio. This means that all investments should be in line with the above mentioned decarbonisation requirements, irrespective over whether or not these are supported through dedicated climate finance.

- In this context, we welcome EIB’s energy sector lending criteria which set an emission performance standard (EPS) for fossil fuel projects. This factor is a valuable tool to gradually phase out support for carbon intensive energy production. This standard needs to be constantly reviewed and reduced in line with the EU climate targets to fulfil its purpose of a “no regrets”-approach, having in mind an almost completely decarbonised energy sector by 2050. Infrastructure associated with fossil fuel power generation plants not meeting the EPS must also be excluded from financing, e.g. coal mines. Furthermore, EIB should analyse if similar standards can also be applied in other sectors.

- Regarding the eligibility criteria for climate change projects:
  - we strongly oppose financing of nuclear energy through the EIB. As stated above, achieving the 2030 energy and climate objectives and increasing energy security will require significant additional investments. The limited amount of public finance has to be directed towards safe and sustainable projects such as renewable energy and energy efficiency. In this context, however, we support financing of dismantling of nuclear plants, nuclear safety improvements and nuclear waste management.
  - it should be assessed if mandatory energy efficiency improvements of currently 20% can be increased to avoid lock-in effects.

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?

- Large energy efficiency potentials remain untapped particularly in lower income Member States. In these countries there is also a large need for investments in renewable energy, smart energy infrastructure and sustainable transport systems in order to reach EU climate and energy objectives and to reduce energy security risks. Nevertheless, the country share of EIB climate action lending for 2009 to 2013 shows that less than 10% of climate action lending has been invested in lower income Member States. However, addressing prevailing market failures needs to be a top priority of EIB’s financing activities in these regions. Assessing, improving and setting up new financial instruments as well as technical assistance and advisory services tailored to market situations in these countries is a key prerequisite to overcome barriers. This also includes a better uptake and use of EU structural and investment funds and crowding-in private financing.

- The same holds true for the Bank’s support for fostering more climate resilient low carbon growth outside the EU. The channelling of EU grants should be used to support partner countries in improving legal framework conditions, addressing market failures and phasing out incentives for high-carbon investments. This holistic approach will serve to create enabling environments for investments in low-carbon and climate resilient development across sectors and beyond dedicated climate action.

**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?**

- The EIB channels project financing to a large extent also by financial intermediaries. It is essential for climate protection that the Bank’s standards on climate action are also applied by intermediaries. The Bank should develop a methodology on how to ensure high standards for projects financed through intermediaries and make the results transparent. The same applies to projects financed by the Bank outside of EU borders.

- The incorporation of an economic cost of carbon when appraising the economic case for a project and the assessment of GHG footprints of projects financed by EIB are valuable tools for the assessment of the project’s climate impact. However, it should be discussed whether the current procedure of accounting only the amount of CO₂ in relation to the amount of financing adequately reflects the activities of the Bank. Given the fact that most of these projects would not have been implemented without EIB financing, the total amount of GHG emissions arising from projects financed by the EIB should also be calculated and shown separately.

- The GHG emissions resulting from EIB lending should also be evaluated at a macro-level, assessing the contribution to a countries’ decarbonisation targets. Accordingly, it should be
assessed whether the GHG emissions resulting from EIB lending are coherent with the decarbonisation requirements derived from the 2°C objective.