Centre for European Reform response to the European Investment Bank consultation on Energy Sector Lending Policy.

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The European Investment Bank (EIB) is doing well on lending to climate action projects. But it is still lending to coal projects. This is inconsistent with EU climate policies.

1. General energy and economic context

(i) Particularly in the current economic climate, is there a trade-off between promoting a competitive and secure energy supply and one which is environmentally sustainable? Where should the balance lie and what implications does this have for energy sector investments?

There is no such trade off. As the Stern Review on the Economics of Climate Change showed convincingly, it will prove much less expensive to mitigate climate change than to leave it uncontrolled and have to pay for adaptation.

(ii) How does investment in the energy sector contribute to growth and employment? Are investments in all energy sub-sectors equally valuable? And how does investment in the energy sector rank relative to other investments in the economy which support growth and employment?

Energy is central to economic growth and employment. Manufacturing requires considerable energy. Services require less energy, but still a substantial amount, which has to be reliable and affordable.

Investments in all energy sub-sectors are equally valuable in terms of contribution to growth, but have very different value in terms of their contribution to climate action. Some leading politicians are arguing that, given the continuing economic crisis, we cannot afford to ‘go green’ at the moment. This is a serious mistake. Climate change is not only an environmental problem; it is already causing death and want. A recent report on vulnerability to the effects of climate change (http://daraint.org/climate-vulnerability-monitor/climate-vulnerability-monitor-2012/) found that climate change is already killing nearly 400,000 people annually world-wide each year. And it is already costing the global economy €930 billion each year.

The top priority for energy lending should be energy efficiency. Producing and using energy more efficiently would contribute substantially to economic
recovery and employment. Energy efficiency improvements through refurbishment of buildings and upgrading of district heating systems cannot be outsourced, so will provide many employment hours. (See http://www.cer.org.uk/publications/archive/policy-brief/2011/delivering-energy-savings-and-efficiency)

2. Renewable energy

(i) The Bank’s economic justification for supporting emerging renewable energy technologies, whose cost is significantly above that of conventional and mature renewable energy technologies, is that continued investments in these technologies will eventually lead to cost reductions and will ultimately be the least-cost approach to meeting the EU’s renewable energy targets. Do you agree with this approach? Is there an alternative approach to the economic justification of these technologies which you consider more appropriate?

The EIB should continue to invest in emerging renewable energy technologies. The economic justification for doing this is not that they are the least-cost approach to meeting the existing 2020 20 per cent renewables target, as mature renewable technologies would be a less expensive way to meet this target, but that emerging renewable technologies are necessary to take the EU beyond 20 per cent towards 100 per cent. Renewables targets for 2030 and the end of each subsequent decade up to 2060 should be set. (See http://www.cer.org.uk/publications/archive/policy-brief/2012/how-expand-renewable-energy-after-2020)

3. Energy efficiency

(i) What do you think are the main barriers to energy efficiency investments? What might be done to overcome these?

The main barrier in the commercial and industrial sectors is the very low carbon price and consequent long pay back periods. This should be overcome by introducing a rising price floor in the ETS (see http://www.cer.org.uk/publications/archive/policy-brief/2012/saving-emissions-trading-irrelevance).

(ii) What role can Energy Service Companies (ESCOs) play in developing energy efficiency investments?

As Upper Austria has demonstrated, ESCOs can play a major role in developing energy efficiency investments (see http://climateanswers.info/2010/08/repowering-communities-upper-austria-case-study/). The EIB should support credible ESCO proposals.

4. Security of supply
What is the future role of smart grids, offshore grids and energy storage solutions?

A Europe-wide smart grid, including offshore, is essential to harness Europe's renewable energy capacity (see http://www.cer.org.uk/publications/archive/policy-brief/2012/connecting-europes-energy-systems). The EIB should give priority to grid extension and improvement, including through Project Bonds.

5. Fossil fuel

(i) Gas is an important bridging fuel source in the transition to a low carbon economy: to what extent and under what conditions should gas-fired generation be supported?

Gas generation is better than coal or lignite generation, but not low-carbon enough to be consistent with climate action goals. Gas-fired generation should only be supported if the proposed new gas facility incorporates combined heat and power and is carbon capture ready.

(ii) What role will coal and lignite fired generation have in the EU power system in the medium term, with or without CCS, and how is this consistent with the EU’s Climate Action goals and its security of supply objectives?

Coal and lignite plants without CCS will have a role in the medium term, unless they are closed down by regulators – which they should be. Taking account of the full life-cycle (including construction and decommissioning), coal plants emit around twice the amount of carbon dioxide per unit of electricity generated as gas plants do, eight times as much as nuclear plants and 32 times as much as wind farms (see http://climateanswers.info/2009/12/how-low-carbon-are-different-generating-technologies/).

New unabated coal or lignite plants are consistent with the EU’s security of supply objectives but inconsistent with climate action goals. The EIB should stop lending to such projects unless they have CCS. Without this change, the EIB will continue to undermine the EU’s climate policies.

Carbon capture readiness is not a sufficiently robust criterion to justify new unabated coal or lignite plants. (See http://www.cer.org.uk/publications/archive/report/2011/carbon-capture-and-storage-eu-advancing-not-fast-enough)

(ii) What will be the role of local coal supplies as input for highly efficient CHPs?
Coal in a CHP plant is better than coal in a power station without CHP, but not nearly good enough to meet climate action goals. The role of coal – local or otherwise – should be zero for new facilities.

6. Nuclear

(i) What role do you expect nuclear power to play in the European energy market?

I expect nuclear to play a declining role in Europe’s energy market, in the light of the Fukushima incident. This is an undesirable scenario because nuclear power is low-carbon, so better than coal, lignite or gas (see http://www.cer.org.uk/publications/archive/policy-brief/2011/thorium-how-save-europes-nuclear-revival

Nuclear power is low-carbon, but not cheap. New nuclear stations will need public financial support. The EIB should lend to nuclear projects.