Dear EIB directors,

We understand that you will soon discuss the draft of the EIB Climate Strategy. As NGOs monitoring closely the operations of the EIB we contributed to the public consultation process via providing the EIB with our written analysis and meeting some of you to discuss the role of the EU financial arm in financing climate action.

In our view this Climate Strategy represents a unique opportunity to ensure full policy coherence between the operations of the EIB and EU climate objectives, to support the EU transition to a low carbon and resource efficient economy and to enhance the credibility of the EIB and EU in fighting against climate change – ahead of the international climate negotiations in Paris. In this context, we deem it crucial for the EIB Board of Directors to deeply analyse, further discuss and amend the draft Strategy which was published in August 2015.

Indeed, we are highly concerned that the draft Climate Strategy is limited to the description of the existing Bank’s climate commitments and to vague statements about compliance with the EU’s policy objectives and targets. The draft Climate Strategy, although it presents a few interesting technical opportunities, does not constitute a fully-fledged strategy: it lacks strong and measurable objectives, relevant action plans and clear implementation timelines to support those objectives. This needs to be urgently addressed in order for this policy process not to become a missed opportunity.

Most importantly, the document does not present any new significant commitment to scale up financing for 2030 climate and energy targets, Energy Union goals and national energy efficiency and renewable energy action plans, in the framework of the EU Roadmap for moving to a low carbon economy in 2050. It ignores the energy efficiency first principle, discards an increase of the Climate Action target of the Bank, and fails to review the Emissions Performance Standard of the EIB energy policy.

In addition, within the context of the European Investment Plan, we express our concern that the absence of an ambitious and solid enough EIB Climate Strategy will prevent the European Fund for Strategic Investments, managed by the Bank, to have a major positive impact in supporting EU energy transition and climate protection.

We therefore ask you to make substantial amendments to the draft Climate Strategy in the following three priority areas:
1. Energy Efficiency First Principle

Energy Efficiency First has been established a fundamental principle of the Energy Union. The EIB shall follow this and establish the principle in its Climate Strategy and further in its Energy Lending Policy when reviewed. The draft Climate Strategy neither prioritises energy efficiency nor refers to and introduces the Energy efficiency First principle.

Energy Efficiency First (EE1) has been defined by the Coalition for Energy Savings as the principle of considering the potential for energy efficiency first in all decision-making related to energy with the aim to redress the historic bias towards prioritising increasing supply over saving energy. Redressing this bias will empower energy transition participants, i.e. all citizens, to overcome the incumbents’ inertia and benefit from energy efficiency.

EE1 requires new decision-making procedures, especially when public funding is distributed. Given its mandate to deliver long-term financing and its commitment to act as a climate leader amongst financial institutions, the EIB is a promising institution to establish EE1 as an organising principle and significantly impact the market.

As noted by the EIB in its Energy Lending Criteria, “[i]nvesting to reduce energy consumption remains the most cost-effective way for the EU to meet its energy and climate objectives”. “Substantial and varied barriers” prevent the implementation of investments in energy efficiency, which are therefore “below the economically justified level”. These barriers have been further described by the Energy Efficiency Financial Institution Group (EEFIG). Despite its leading position as an energy resource (the IEA describes it as the world’s ‘first fuel’), energy efficiency still has a large untapped development potential: enabling an ‘energy efficiency boom’ could be a defining project for Europe. Opportunities emerge, and the upcoming Investment Plan for Europe can help plug this investment gap.

Worldwide, a bias still persists in energy decision making: increasing supply is prioritised over saving energy. This bias is a direct consequence of the barriers mentioned above, but is also the result of a long-standing mindset deeply rooted in our value system. Various attempts to ringfence funding for energy efficiency have been made, but the continued investment in supply-side assets shows that the energy efficiency potentials are disregarded, or simply that the institutions’ ‘silo’ culture prevents proper integration. The European Commission has shown signs that it wants to initiate a change in mentalities, and has been promoting “energy efficiency first” as a guiding principle of the Energy Union. The EIB’s rules, policies and operations offer a privileged space to apply the principle and trigger concrete outcomes, consolidating the reputation of the Bank in setting standards. The challenge is however, that the EIB has been treating energy efficiency as nice-to-have. We instead recommend a systematic approach:

a) Playing a leading role in promoting energy efficiency improvements

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1 Coalition for Energy Savings 2015, Position Paper
2 EIB 2013 Energy lending criteria, p.17, and pp.18-19
3 EEFIG, 2015, Energy Efficiency - the first fuel for the EU economy
4 IEA 2014 Energy efficiency: From "hidden fuel" to "first fuel"?
5 EIB 2015 Climate Action Public Consultation - DRAFT -issues Matrix
Promoting best-in-class energy efficiency standards across its entire projects portfolio.

b) Integrating energy efficiency into economic risk assessments

- Assessing projects compared to a low energy consumption scenario consistent with EU’s reference scenarios (for each fuel and each country) and EU’s targets. This ‘energy savings test’ will address the risk of stranded assets.
- Similarly, overcoming the barriers to energy efficiency and therefore tapping the full cost-effective potentials will significantly reduce energy demand. This, coupled with the increase of renewables in the energy mix, will lead to a further decrease in fossil fuel prices. The EIB is already forecasting the effect of ambitious climate policies, with its carbon pricing strategy. It could also put in place shadow energy prices.

2. Climate Action target

The Climate Strategy shall progressively increase its Climate Action target to 50% in 2030 following the commitment made to play a leading role in mobilising the finance needed to achieve the worldwide commitment to keep global warming below 2°C and to adapt to the impacts of climate change. The Bank set up its current 25% target in 2011 and “has subsequently remained at that level”\(^{6}\). The new 2030 EU climate and energy targets and the Energy Union Package justify and require an increase of the Climate Action target of the Bank.

The Bank shall also establish a sub objective for cross-sector energy efficiency projects at the level of at least 20% of Climate Action. We would like to emphasise that the Climate Action target constitutes a horizontal objective and thus as such does not compete with but contributes to other policy objectives like SME support, regional development, environmental sustainability, innovation and research, competitive and secure energy supply. Then, it reduces the need for costly trans-European infrastructures in a very cost-effective way.

We appreciate the Bank announcement to reinforce the impact of climate financing and take action to increase the pipeline of Climate Action projects. However similar commitments were made by the bank before and eventually did not lead to a substantial and stable increase in Climate Action financing. Moreover, current commitments to improve methodologies and definition of impacts, seek financial innovation and increase the pipeline of projects are not accompanied by an action plan and an implementation timeline.

Therefore while the emphasis on energy efficiency is intrinsic to the Energy Union Package and is one of the explicit objectives for the European Fund for Strategic Investments, it is necessary to focus the Bank on expanding Climate Action and truly prioritise lending to energy efficiency.

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\(^{6}\) EIB 2015 Draft EIB Climate Strategy, p7
3. The EIB Emissions Performance Standard (EPS) needs to be reviewed and strengthened

In its 2013 energy policy, the EIB introduced an EPS and committed to review it in the second half of 2014, after the adoption of the 2030 EU climate and energy targets. But it failed to do so. The Climate Strategy of the Bank is a new opportunity to live up to this commitment – but the Bank still ignores its review commitment despite significant policy changes at European level.

The EIB EPS is currently set at a level of 550 g CO2/kWh. Such a level is not consistent with the EU 2050 climate target which would require an EPS of maximum 450 g CO2/kWh, and lags behind those EPS introduced by the UK, US and Canada.

We recommend that the EIB sets the EPS level at 350 g CO2/kWh in order to only support the most efficient fossil fuel-fired power plants, given its commitments to only support best available technologies. This would send a strong signal to both industry and investors. Indeed, this level of 350 g CO2/kWh largely corresponds to the fossil fuel-fired power plants financed by the EIB in the last years: the EIB is already reaching that level in practice and should clarify it.

The fossil fuel-fired power plant technology reaching 350 g CO2/kWh is already mainstreamed (notably Combined Cycle Gas Turbines, CCGT): there is no rationale to procrastinate with more polluting technologies. It would be an important step towards a complete phasing out of financing fossil fuels. In addition, it should be noted that the two exemptions to the EIB EPS (isolated energy systems; poorest countries) remain unchanged in the EIB energy policy, allowing flexibility in exceptional cases.

Yours sincerely,

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7 EIB 2013, EIB and Energy: Delivering Growth, Security and Sustainability, paragraph 118