Briefing for the EIB Board of Directors for the seminar with civil society organisations on 5 February 2018

Putting the EIB at the front of the clean energy transition

Dear Board of Directors,

This year the European Investment Bank will review its Energy Lending Criteria. This offers the bank the opportunity to align its energy financing with the Paris Agreement and catch up with rapid developments in the clean energy transition, the global policy framework on climate change and simultaneously to lead the multilateral development banks into the next generation of energy financing. To this end, it needs to shift its funds: from funding fossil fuels to stepping up finance for renewable energy and energy efficiency projects, in particular small-scale and people-owned and controlled, decentralized projects. This will be facilitated by aligning funding with the National Energy and Climate Plans (NECPs) EU Member States are due to develop this year and help comply with the Paris Climate Change Agreement's goal of net-zero emissions by the second half of the century.

Clean Energy Transition: Since the EIB's last energy lending policy review in 2013, drops in technology costs of clean technologies have fundamentally changed the economics of the transition. Offshore wind costs have already dropped to what the EU expected them to be in 2050 in its roadmap[1].Recent solar and wind auction prices in Europe are below those of the EU's 2016 Clean Energy Package modelling for the year 2030[2]. This is complemented by a global trend to phase out coal and a long-term trajectory of declining gas demand, as renewable energy is set to become cheaper than existing gas in the next decade[3].

Global policy framework on climate change: Since 2013, the Paris Agreement has fundamentally changed the policy context. The Paris Agreement requires that financial flows are compatible with a pathway towards low greenhouse gas emissions and climate-resilient development. All shareholders of the EIB have signed the Paris Agreement. The EU also committed to phase out fossil fuel subsidies by 2025 under the auspices of the G7 and by 2020 under own Environment Action Programme.

Opportunity to become a climate leader: At the "One Planet Summit" in Paris in December 2017, the momentum by the financial industry to align flows with climate objectives has become visible. The World Bank for example announced it will no longer finance upstream oil and gas projects after 2019. The EIB already has a smaller share of fossil related energy finance (around a third) than most multilateral development banks (MDBs)[4], so is well positioned to become an internationally leading MDB if it announces a shift away from fossil fuels this year.

How to do this? The current Energy Lending Criteria adopted in 2013 were a real milestone in the Bank's approach to the energy sector. It tightened criteria for fossil fuel power plants through setting-up the Emission Performance Standard (EPS) which helped to eliminate the most polluting electricity generation installations from the EIB's portfolio. Also, under the guidance of this policy

[1] https://ec.europa.eu/energy/sites/ener/files/documents/roadmap2050_ia_20120430_en_0.pdf
[2] https://www.strommarkttreffen.org/2017-06-02_Graf-Winter-Paket.pdf
[3] See attached E3G briefing, and BNEF, Eaton, REA (2017), Flexibility gaps in future high-renewable energy systems in the UK, Germany and Nordics
[4] E3G (2017), Greening Financial Flows – what progress has been made in the development banks?

between 2013 and 2016 the bank has granted loans worth almost EUR 20 billion in support of renewable energy sources globally and at least another EUR 11 billion for energy efficiency.

Nevertheless the implementation of the Paris Agreement requires more ambitious plans "*to pursue efforts to limit the temperature increase to 1.5 °C above pre-industrial levels*"[5]:

Reducing the risk of locking in a fossil fuel future by explicitly committing to end any kind of finance to fossil fuel energy projects:

While the requirement to stop financing fossil fuels has been reiterated with the Paris Agreement**,** between 2013 and 2016 the EIB provided financing for various fossil fuel projects worth almost EUR 10 billion. More than EUR 1.8 billion of these investments was guaranteed by the EU's flagship financial instrument - the European Fund for Strategic Investments (EFSI) - in the last 2 years.The majority of EIB's investments in fossil fuels focuses on gas infrastructure. However, in the context of a medium-term decline in gas demand, the consideration of the lock-in effect of these projects has largely been neglected:

- The pace and significance of energy systems transformation needs to accelerate and any public investment should be assessed against its **lock-in effects**[6].To this end, support to individual projects should undergo a **climate test** to ensure alignment with the Paris Agreement and the National Energy and Climate Plans (NECPs) by Member States. Such climate test shall also apply to EIB's sectoral portfolio. As a start the Bank's energy policy should explicitly commit to end any support to fossil fuel energy projects. If EU governments take action in line with the Paris Agreement these investments may quickly become stranded assets.
- One step to increase its impact would be for the EIB to immediately stop any support for **energy companies** that plan coal power, mining or infrastructure expansion[7], except for renewables or energy efficiency projects. The Bank should also only support utilities which derive less than 30% of their power from coal and have less than 30% of their installed power capacity from coal, and have adopted well below 2°C compliant strategies to transition towards low greenhouse gas emissions energy production.
- The African Development Bank and Asian Development Bank already exclude finance to **fossil fuel exploration**. A phase out of fossil fuel subsidies is needed to comply with EIB's shareholders international commitments. As a bare minimum, the EIB must match the World Bank's announcement by ruling out investment in upstream oil and gas exploration and development. As a European institution the EIB must go further than this by phasing out immediately all oil and gas support.

Putting energy efficiency first and scaling up renewable energy financing:

The European Environment Agency concluded that even to achieve the less ambitious goal of reducing EU-wide greenhouse gas emissions by 80-95% compared with 1990 levels by 2050, the deployment of renewable energy in the EU must accelerate and Member States must step up their efforts to decrease primary energy consumption[8]:

---

[5]Paris Agreement, United Nations, 2015, http://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf

[6]*Ibid.*

[7]A list of coal plant developers can be found here: https://coalexit.org/database

[8]*Progress of the European Union towards its renewable energy targets*, 27 November 2017, European Environment Agency

- Widen support for renewable energy in EU countries currently underrepresented in the EIB's energy lending portfolio[9].In this context we propose that the Bank develops and discloses country tailored approaches which identify barriers, opportunities and relevant financial mechanisms to step up its financial assistance to small-scale and people owned and controlled decentralised renewable energy projects with a strong sustainability objective.

- The same mechanism should also apply to the energy efficiency sector to better assist Member States stepping up their efforts to decrease primary energy consumption. Delivering transformational improvements in energy efficiency is essential if Europe is to achieve its goals for climate change, competitiveness and social inclusion. The Bank needs to become more proactive in proposing such financial solutions which help to stimulate energy efficiency investments by smaller companies, municipalities, regions and individuals. This is evident by the fact that nearly three-quarters of the EU's 2030 clean energy investment gap – €130 billion each year – is accounted for by energy efficiency in buildings. Therefore, the future energy policy should fully embrace the 'energy efficiency first' principle by considering the potential for energy efficiency solutions in all decision-making related to energy, to be able to make informed investment choices, by comparing energy efficiency and energy supply options and only approving projects which would make most sense in an energy-efficient economy.

Supporting the development of national capital raising plans:
Finally, the EIB should actively support the development of national capital raising plans for Member States, turning the National Energy and Climate Plans (NECPs) - required by the forthcoming Energy Union's governance framework -into a pipeline of tangible sustainable investment opportunities in energy efficiency and renewable energy, and zero-emission mobility solutions. The volume of investment required to fulfil the EU's climate and energy goals to 2030 is estimated to be worth €11.2tr during period 2021-2030[10].The EIB is suitably placed to support the development of national capital raising plans through providing on-demand strategic advisory support to EU Member State Governments and their National Public Banks, as done through the European Investment Advisory Hub.

As the EIB undertakes its energy policy review we ask you to consider these issues – and seize the opportunity to build on progress made to date and become Europe's catalyst to deliver a truly sustainable and energy-secure economy.

Yours sincerely,

Signatories

Both Ends | **CEE Bankwatch Network**

Both ENDS
Connecting people for change

CEE bankwatch network

---

[9]The winners and losers of climate action at the European Investment Bank, CEE Bankwatch Network, May 2017
[10]http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52016SC0405

Climate Action Network Europe

Counter Balance

E3G

Friends of the Earth Europe

Food & Water Europe

Leave it in the Ground Initiative (LINGO)

Les Amis de la Terre

Oil Change International

Re:Common

Urgewald

The Big Shift Global

WWF European Policy Office