

December 2018

# Failing Better or Climate Success?

Briefing on the European Investment Bank & support to fossil fuels



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<https://sciencebusiness.net/news/european-investment-bank-course-meet-eu315b-juncker-plan-target>

2

<http://www.ipcc.ch/report/sr15/>

3

<http://www.eib.org/en/infocentre/press/releases/all/2018/2018-233-eib-president-werner-hoyer-announces-major-progress-on-tackling-climate-change-globally-at-the-one-planet-summit-in-new-york.htm>

# Introduction



Screenshots from the EIB webpage: <http://www.eib.org/en/projects/priorities/climate-and-environment/climate-action/index.htm?f=search&media=search>

*'If the current warming rate continues, the world would reach human-induced global warming of 1.5°C around 2040.'* IPCC SPECIAL REPORT: GLOBAL WARMING OF 1.5 °C

*'I cannot promise you that at a special day in the future we will have stopped financing fossil fuels. It would not be honest. The member states that own us will say they do not follow that way.'*

This is the reply of the European Investment Bank (EIB) President Werner Hoyer in front of the European Parliament's plenary when asked early 2018 when the EIB would stop supporting fossil fuels.<sup>1</sup>

In October 2018, the Intergovernmental Panel on Climate Change (IPCC) published its 1.5°C report<sup>2</sup> finding that limiting warming to 1.5°C, compared to 2°C, 'would reduce challenging impacts on ecosystems, human health and well-being, making it easier to achieve the United Nations Sustainable Development Goals'. To hold warming to this limit, the scientists underlined that global carbon pollution must fall to 'net zero' around 2050, therefore requiring a huge and immediate transformation. And scientists have long been exposing the key role played by fossil fuels extraction, transport and consumption in increasing global warming.

The Paris Agreement also requires that financial flows are compatible with a pathway towards low greenhouse gas emissions and climate-resilient development. For the EIB it would mean phasing out lending to fossil fuels projects, making its loans to companies with high carbon assets conditional on adopting decarbonisation plans, internalising the energy efficiency first principle in its decision making on loans and improve its support to renewable energy development.

All the shareholders of the EIB have ratified the Paris Agreement, and the bank itself has claimed during the One Planet Summit in New York that it will align all its activities with the Paris Agreement by 2020. As President Hoyer put it, 'I am confident that for our part all the EIB's activities will be fully aligned by 2020'.<sup>3</sup> Yet, it continues to fund fossil fuel projects.

This year the EIB will review its Energy Lending Criteria for the first time since the conclusion of the Paris Agreement offering the Bank the opportunity to update its policy to take into account both the new obligations arising from the Paris Agreement and the current scientific understanding.

The outcome will give a clear signal of how the Bank will operationalise its commitment to dealing with climate change and whether

it has decisively adjusted its approach to align with the urgency demanded by climate science. This is the opportunity for the Bank to show leadership on the clean energy transition to fight climate change. Having portrayed itself as a climate champion - while still channeling huge support to fossil fuel projects, it is now time to substantiate its claims with concrete actions.

## Section 1: Time for a fossil free EIB

The publication of the IPCC new report on 1.5°C demonstrates the urgency of action demanded by the Paris Agreement commitment to keep ‘a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C degrees Celsius’ and outlines the serious consequences of not doing so.

The IPCC report highlights that the world has already warmed by a degree over pre-industrial temperatures and is well on course for further increases of 0.2°C per decade and will, if the current warming rate continues, reach 1.5°C human-induced global warming around 2040.<sup>4</sup>

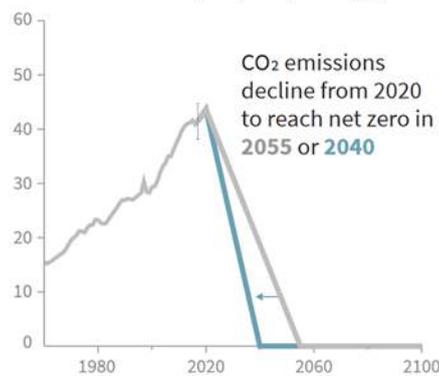
With 1.5°C will come extreme warming in many regions, and increases of heavy rain and increased intensity and frequency of droughts. The consequences of going beyond 1.5°C increase these risks even more. Even limiting global warming to 1.5°C, compared with 2°C, could reduce the number of people both exposed to climate-related risks and susceptible to poverty by up to several hundred million by 2050. Breaching 1.5°C, even temporarily, may lead to ‘irreversible’ impacts.

The report demonstrates the limited scope for maneuver faced by the world; that even with upscaled action to reduce emissions

between now and then, the world needs to achieve net-zero global carbon emissions by around 2050. The IPCC also warns that ‘there is no historical precedent for the scale of the necessary transition’. The challenge is massive and rapid cuts to greenhouse gas emissions are needed.

However, the IPCC report is making

Billion tonnes CO<sub>2</sub> per year (GtCO<sub>2</sub>/yr)



Graph 1: Stylized net global CO<sub>2</sub> emissions pathways. IPCC Global Warming of 1.5 C Summary for Policymakers p.33

recommendations at the global scale. **For Europe, which acknowledges its greater responsibility and capability to halt climate change, the switch to net-zero emissions must come much sooner.**

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[https://www.ipcc.ch/pdf/special-reports/sr15/sr15\\_faq.pdf](https://www.ipcc.ch/pdf/special-reports/sr15/sr15_faq.pdf)

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<https://www.mofa.go.jp/files/000160266.pdf>

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<http://data.consilium.europa.eu/doc/document/ST-10307-2018-ADD-2/en/pdf>

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<http://www.europarl.europa.eu/sides/getDoc.do?pub Ref=-%2F%2FEP%2F%2FTEXT%2bTA%2bP8-TA-2018-0215%2b0%2bDOC%2bXML%2bV0%2F%2FEN&language=EN>

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<https://www.worldbank.org/en/news/press-release/2017/12/12/world-bank-group-announcements-at-one-planet-summit>

9

<https://gofossilfree.org/divestment/commitments/>

10

Energy investments in 2015 were USD 1.8 trillion, far less than the USD 3.5 trillion required today [http://www.irena.org/-/media/Files/IRENA/Agency/Publication/2017/Mar/Perspectives\\_for\\_the\\_Energy\\_Transition\\_2017\\_Executive\\_Summary.pdf?la=en&hash=7FCE69C6C62EA63EBC400A85F1E0BEEBBC7A63E7](http://www.irena.org/-/media/Files/IRENA/Agency/Publication/2017/Mar/Perspectives_for_the_Energy_Transition_2017_Executive_Summary.pdf?la=en&hash=7FCE69C6C62EA63EBC400A85F1E0BEEBBC7A63E7)

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[http://europa.eu/rapid/press-release\\_STATEMENT-18-6043\\_en.htm](http://europa.eu/rapid/press-release_STATEMENT-18-6043_en.htm)

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UNEP Emissions Gap Report 2016 p.xvii [https://wedocs.unep.org/bitstream/handle/20.500.11822/10016/emission\\_gap\\_report\\_2016.pdf](https://wedocs.unep.org/bitstream/handle/20.500.11822/10016/emission_gap_report_2016.pdf)

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[https://www.nature.com/articles/nature14016.epdf?referrer\\_access\\_token=yCPWpi99S9edti44\\_h6t9NRgN0jAjWel9jnR3ZoTv0MEzzy4wDRQte5fViQxiPJlJfgcjxiQpfQtqwAkMQY\\_0DkjoT7\\_E0MfKeLVGaj1XMMsDzXmRoXz5NB\\_XveE8iDBc](https://www.nature.com/articles/nature14016.epdf?referrer_access_token=yCPWpi99S9edti44_h6t9NRgN0jAjWel9jnR3ZoTv0MEzzy4wDRQte5fViQxiPJlJfgcjxiQpfQtqwAkMQY_0DkjoT7_E0MfKeLVGaj1XMMsDzXmRoXz5NB_XveE8iDBc)

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<http://priceofoil.org/2016/09/22/the-skys-limit-report/>

## Commitment to end fossil fuel subsidies

This responsibility is already acknowledged by the EU in its existing commitments to phase out fossil fuel subsidies.

As long ago as 2009 the EU agreed with the other members of the G20 that public support for fossil fuels must be phased out, a promise repeated many times since then.<sup>5</sup> The 7th EU Environmental Action Programme also aims at phasing out environmentally harmful subsidies by 2020. And the agreed Energy Union governance framework includes reporting of actions to phase out fossil fuel subsidies.<sup>6</sup>

This long-standing commitment has been backed by the European Parliament this year, who, in its resolution on sustainable finance, called for the phasing out of fossil fuel subsidies.<sup>7</sup>

## Paris Agreement

The Paris Agreement goes even further than these commitments in seeking to align *all* financial flows, not only public subsidies, with the goals of the agreement. Signatories to the agreement committed to 'align financial flows with the objectives of the agreement'.

Since then there have been several moves by public actors to reshape finance in line with the agreement. The World Bank, for example, has committed not to finance upstream oil and gas.<sup>8</sup>

Even the private sector has been responding to this demand. More than 985 institutional investors with over \$6.24 trillion in assets have already committed<sup>9</sup> to divest from fossil fuels.

Private banks have also begun restricting their lending to the fossil fuel sector. In 2017 the Dutch Bank ING announced that it was going to cease lending to any utility with more than five per cent of its power coming from coal. This followed the earlier announcements that they would not finance tar sands or tar sands pipelines.

Meanwhile, the investment needs for the transition to a clean energy future are

immense. The International Energy Agency and International Renewable Energy Agency have estimated that around USD 3.5 trillion in energy sector investments would be required on average each year between 2016 and 2050 to keep warming to within 2 degrees – almost double the existing level of investments.<sup>10</sup>

The EU has estimated that to meet its Paris Agreement 2030 commitments, it alone needs around €180 billion in extra investment every year until then in energy efficiency, renewable energy, and clean transport.<sup>11</sup>

However, greenhouse emissions cuts in the Paris Agreement, even if fully implemented, still leave the world on track for more than 3°C of global warming.<sup>12</sup> To keep global warming to within 1.5°C the investment demands will inevitably be much greater. The EIB, therefore needs to ensure that it is focusing its limited resources on investments which add long-lasting value to the energy transition and whose climate credentials are robust enough to ensure the world keeps to within 1.5°C of global warming. Fossil fuel projects do not meet that criteria.

## Time to end support to all fossil fuels

It is clear that to avoid climate catastrophe most fossil fuels will have to remain unexploited. In 2012 McGlade and Eakins of University College London found that a third of oil reserves, half of gas reserves and over 80% of current coal reserves globally should remain in the ground if global warming is to stay below even the 2°C target<sup>13</sup>. According to more recent research by Oil Change International the reserves in currently operating oil and gas fields alone, even with no coal, would take the world beyond 1.5°C.<sup>14</sup> The fossil fuel age has to come to an end.

The European Union and its banks have however continued to invest public money into fossil fuel projects, particularly gas projects in recent years. The largest and most recent example is the Southern Gas Corridor (see Section 2 below).

But the continued investment in gas projects, like other fossil fuel projects, is incompatible with the Paris Agreement. Gas projects such as gas pipelines and LNG terminals last as long as 50 years or more.

As mentioned above, the recent IPCC report shows that, at current rates, the world may already have warmed by 1.5°C by 2030 – clearly making any investments in such projects incompatible with Europe’s climate objectives. Furthermore, even if current pledges for 2030 are achieved but no more, the IPCC finds very few (if any) ways to reduce emissions after 2030 sufficiently quickly to limit warming to 1.5°C.<sup>15</sup>

Even with massive efforts to achieve emissions reductions, the world will need to be at net zero ‘between 2040 and 2055’ i.e.

long before the end of life of any gas pipelines and LNG terminals.

In addition, Europe has a greater responsibility and capability to deliver emissions cuts further and faster meaning that Europe needs to end its use sooner than the world in general further reducing the time available to continue using fossil fuels. Thus, any further investments in gas infrastructure are incompatible with the need to urgently decarbonise.

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[https://www.ipcc.ch/pdf/special-reports/sr15/sr15\\_faq.pdf](https://www.ipcc.ch/pdf/special-reports/sr15/sr15_faq.pdf) p.6

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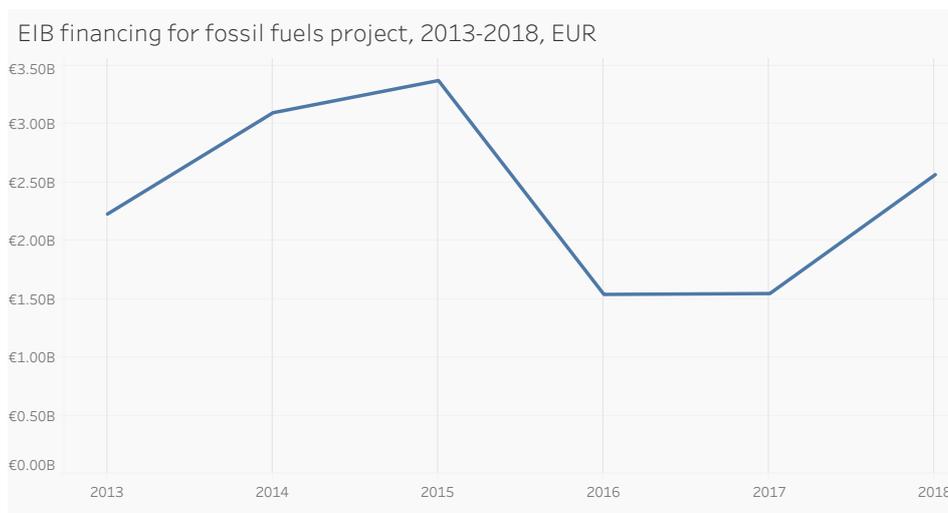
<https://bankwatch.org/wp-content/uploads/2018/09/EIB-energy-policy-review-FULL.pdf>

## Section 2: How the ‘EU Bank’ supports fossil fuels

The European Investment Bank has yet to align its financing with the Paris Climate Agreement and has continued to finance fossil fuel projects until today. The figures are telling: **between 2013 and 2017, the EIB lent 11.8 billion Euros to fossil fuel projects.**

A recent report<sup>16</sup> from CEE Bankwatch Network shows the significance of these dirty investments. Between 2008 and 2015,

fossil fuels constituted at least 20% of the EIB’s energy sector lending. Since then, among other dirty investments, the EIB approved loans worth 2.4 billion Euros for the Trans Adriatic Pipeline (TAP) and the Trans Anatolian Pipeline (TANAP), two parts of the Southern Gas Corridor. If both loans for pipelines are signed in 2018 there will be another peak in fossil fuel support.



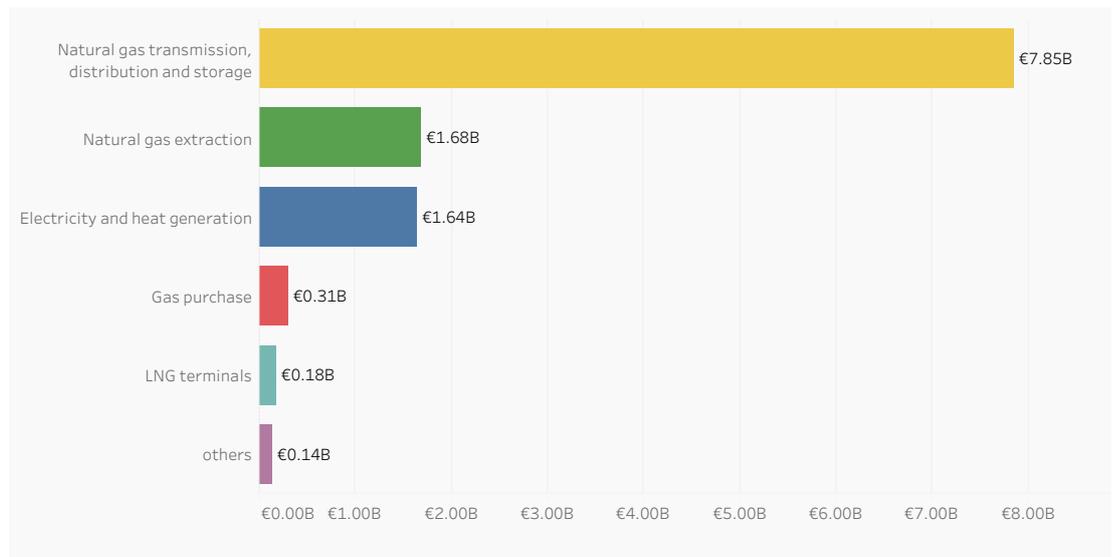
Graph 2: EIB financing for fossil fuels project, 2013-2018\*, EUR  
2018\* projections - all loans which were approved or signed in 2018

Looking at the breakdown of this fossil fuel lending, it is clear that the lion's share is going to gas projects.

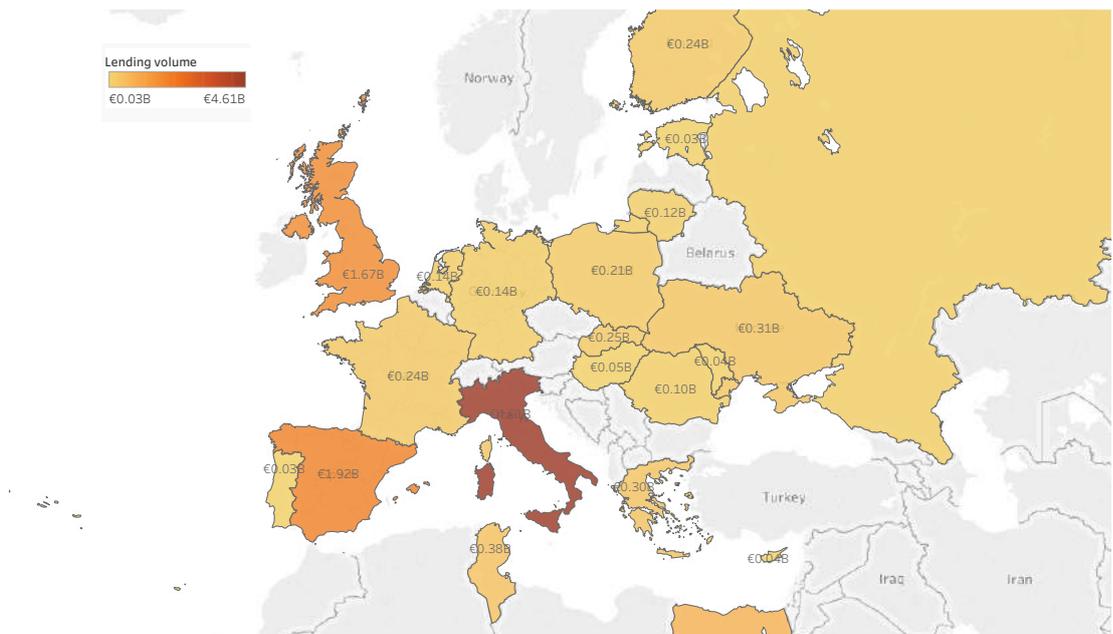
The current energy policy of the EIB devotes a central role to gas. For instance, the policy mentions that *'the upgrading and construction of new infrastructure for the security of energy supplies, notably new gas and oil facilities, is a priority area for energy investments in the EU and for the EIB. As well as access to crude oil and*

*natural gas, refining infrastructure is a crucial part of the hydrocarbon supply chain'.*

Natural gas transmission, distribution and storage represents the bulk of EIB's support to gas. But in parallel, the bank still invested in gas extraction (1.68 billion Euros), LNG terminals (180 million Euros) and gas purchase (310 million Euros).



Graph 3: EIB fossil fuel lending 2013-2017, categories of projects, EUR billion



Graph 4: EIB fossil fuel lending 2013-2017, categories of projects, EUR billion

## Investing into a black hole: the Southern Gas Corridor

The most recent figures on EIB lending to fossil fuels, and in particular to gas infrastructure, got a considerable boost in early 2018, when the bank decided to channel more than **2.4 billion Euros** into one of the most expensive (and controversial) infrastructure projects of all times: **the Southern Gas Corridor**.

Amid civil society's dismay, the bank decided on a 1.5 billion Euros loan<sup>17</sup> to the Trans Adriatic Pipeline (TAP) - western leg of the corridor passing through Greece and Albania and landing on southern Italian shores - and a 932 million Euros loan<sup>18</sup> to the Trans Anatolian Pipeline (TANAP) - the eastern 'sister' crossing Turkey.



The route and the three pipelines of the Southern Gas Corridor.

And the EIB is also using guarantees from the European Union (under the so-called Juncker Plan) to finance oil and gas pipelines. The EIB reported that by the end of 2017 it contributed to the construction or upgrade of over 6600 kilometers of gas or oil pipelines.<sup>20</sup>

## ... And new hidden ways to pursue coal bonanza

In 2013, when adopting its new energy policy, the EIB effectively ended direct lending to coal projects via the introduction of the Emission Performance Standards (EPS) at a level of 550 g CO<sub>2</sub>/kWh. The EPS has strongly impacted the Bank's electricity generation and fossil fuel portfolios. It has meant that no

In total, these loans make the Southern Gas Corridor the largest fossil fuel project ever funded by the EIB, funded 26 years after the signing of the United Nations Framework Convention on Climate Change and when the Earth had already warmed by 1°C. The Southern Gas Corridor is projected to remain operational for 50-60 years.<sup>19</sup> This would have it supplying fossil fuels nearly 90 years after the UNFCCC was founded.

To the corruption, human rights, and above all climate-impact concerns brought up by civil society about the project, the EIB decided to turn a deaf ear and hide behind the political decisions of the Member States, the European Commission and the External Action Service.

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<http://www.counter-balance.org/controversial-gas-pipeline-gets-eur-1-5-billion-in-public-money-amid-massive-climate-risk/>

18

<http://www.counter-balance.org/controversial-turkish-azerbaijani-gas-pipeline-gets-major-eu-loan/>

19

<http://cbw.ge/gas/southern-gas-corridor-to-remain-active-for-50-60-years/>

20

2017 Report to the European Parliament and the Council on 2017 EIB Group financing and investment operations under EFSI, [http://www.eib.org/attachments/strategies/efsi\\_2017\\_report\\_ep\\_council\\_en.pdf](http://www.eib.org/attachments/strategies/efsi_2017_report_ep_council_en.pdf)

21

<https://bankwatch.org/publication/european-public-funding-for-fossil-fuel-dependent-companies>

coal power plant could be financed, though limited exceptions continue to exist. But, since 2013, the Bank has still continued to support, indirectly, the coal sector.

As pointed out by a recent report<sup>21</sup> by CEE Bankwatch Network, the EIB provided between 2013 and 2017 3.9 billion Euros to a number of companies with a high share of coal in their power and heat generation portfolios or which plan to develop new coal power capacities. These companies include Energa, Enea, Tauron and PGE in Poland, Endesa in Spain, PPC in Greece and CEZ in Czech Republic, who are among Europe's biggest carbon emitters and sources of air pollution.

In 2016 Energa and Enea decided on a joint investment in new, 1000 MW coal capacities. A tender for the construction of the Ostrołęka coal-fired power plant has already been completed. In 2017, after Energa received EIB and EBRD loans for issuing hybrid bonds for grid development, the company cancelled old contracts with renewable energy producers. A year later Energa lost a couple of court cases with aggrieved wind power companies. Earlier in 2016, Energa and PGE invested 115 million Euros each in the newly established Polish Mining Group, now the EU's biggest hard-coal miner.

PGE, Poland's largest coal-heavy utility, is also one of the biggest polluters in Europe. PGE signed loans contracts with the EIB in 2015 for approximately 4,64 million Euros.

It clearly has no decarbonisation plan since

its capital expenditures in renewable energy decreased by 44% in 2017 compared to the year before, and it is currently developing new coal capacities and modernizing its existing, old coal fleet.

Its new power units in Opole and Turów together make up approximately 2.3 gigawatts (GW) of new coal capacity and contributes to Europe's carbon lock-in. And its Belchatow power plant alone emits as much mercury into the air as Spain's entire industrial sector and was responsible for almost 1,300 premature deaths in 2013 alone and for 1.8 - 3.5 billion Euros in health costs.<sup>22</sup> The company also operates extensive open-pit lignite mines in Poland and plans to open more. The mines require huge amounts of water, leading to significant effects on local water supply, creating problem for local agriculture



Photo: Greenpeace Polska (CC BY-ND 2.0)

## Section 3: Gas investments - a waste of public money

Not only are continued investments in gas projects incompatible with Europe's climate goals but evidence is mounting that such projects also risk becoming stranded assets.

### Oversupplied

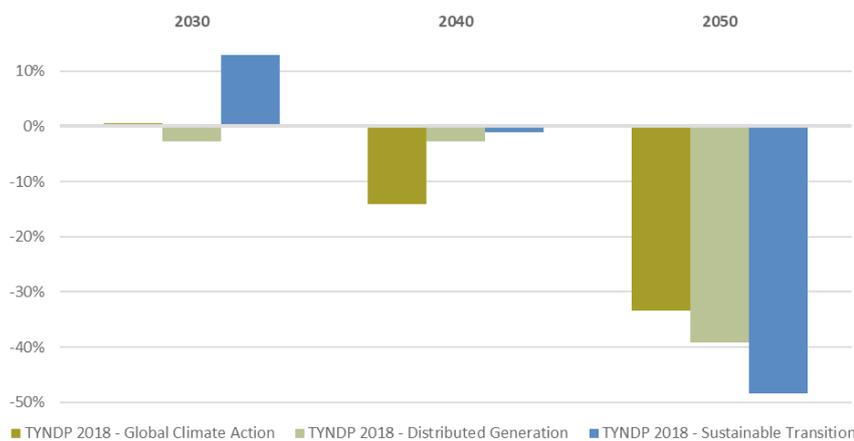
Today, the EU is already oversupplied with import capacity. Total gas import capacity is approximately 700 - 750 billion cubic meters<sup>23</sup> per annum. In 2017, gas imports were only 360 bcm<sup>24</sup> for a total gas demand of 491 bcm.<sup>25</sup>

This over-capacity is even starker in the LNG sector where the EU currently has 25

LNG import terminals but in 2017 they were used at only 26% capacity.<sup>26</sup> Some such as El Musel, in Spain are entirely idle.<sup>27</sup> The European Commission notes that it has about '150 bcm [of gas import capacities] currently spare.'<sup>28</sup>

### Declining demand

In addition, gas demand is projected to decline. Even non-Paris compatible projections for infrastructure needs published by the gas supply industry - the Ten Year Network Development Plans show a declining gas demand.



\* Source: Up to 2040: TYNDP 2018; 2050: EU 2050 roadmap.

Compliance with the Paris Agreement would likely require further cuts in gas demand (in the absence of CCS).

Graph 5: % change in gas demand (mtoe) on previous decade\*

The gas industry<sup>29</sup> claims that as much as 138 bcm of fossil gas can remain in the EU energy mix by 2050, roughly a third of current demand. Even this amount of fossil gas would require a fraction of current gas transmission capacity, implying a large scale reduction of infrastructure capacity between today and 2050. However, as we have seen achieving 1.5°C demands a phase out of fossil fuels many years before then and thus a much faster reduction in gas infrastructure needs.

This reduction in demand is not just confined to the medium term but also to the coming

decade. The EU's own impact assessment of the Energy Efficiency Directive found that gas demand would decline with the proposed energy efficiency targets. As the energy consultancy Trinomics have pointed out 'more ambitious targets of 30% or 35% would result in a decrease of 1.9 and 3.5% annually'. The EU has recently agreed an energy efficiency target of 32.5%. The EU's recent commitment to the Paris Agreement of reducing GHG emission by 40% still is only in line with global commitments which will restrict global warming to less than 3.2°C.

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Approximately 490-540 bcm of pipeline import capacity Pipeline - 490 bcm (2014)

<https://ec.europa.eu/energy/sites/ener/files/documents/LNG%20consultation%20-%20publication.pdf> p2 & <https://www.entsog.eu/maps/transmission-capacity-map> and 210 bcm of LNG import capacity <https://www.reuters.com/article/us-eu-us-Ing/trump-bets-on-new-european-Ing-terminals-but-eu-funds-meager-idUSKBN1KL33S>

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[https://ec.europa.eu/energy/sites/ener/files/documents/quarterly\\_report\\_on\\_european\\_gas\\_markets\\_q4\\_2017\\_final\\_20180323.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/quarterly_report_on_european_gas_markets_q4_2017_final_20180323.pdf)

25

<https://www.naturalgasworld.com/eurogas-points-to-high-2017-eu-demand-60144>

26

<https://www.euractiv.com/section/energy/news/trump-bets-on-new-european-Ing-terminals-but-eu-funds-meager/>

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<http://www.naturalgaseurope.com/musel-Ing-to-be-shelved-6067>

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[http://europa.eu/rapid/press-release\\_IP-18-4920\\_en.htm](http://europa.eu/rapid/press-release_IP-18-4920_en.htm)

29

138 bcm is 30% of the 460bcm the gas industry claims 'can be' in the energy mix by 2050, when so-called renewable gas is excluded <https://gaswindandsun.eu/>

<http://trinomics.eu/project/ten-e-and-cef-in-line-with-cop21/>

<http://www.ebrd.com/cs/Satellite?c=Content&cid=1395256764251&d=&pagename=EBRD%2FContent%2FDownloadDocument>

[https://ec.europa.eu/energy/sites/ener/files/documents/communication\\_on\\_infrastructure\\_17.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/communication_on_infrastructure_17.pdf) p.7

[https://www.ipcc.ch/pdf/assessment-report/ar5/wg1/WG1AR5\\_Chapter08\\_FINAL.pdf](https://www.ipcc.ch/pdf/assessment-report/ar5/wg1/WG1AR5_Chapter08_FINAL.pdf) (p.714)

[https://www.ipcc.ch/publications\\_and\\_data/ar4/wg1/en/ch2s2-10-2.html](https://www.ipcc.ch/publications_and_data/ar4/wg1/en/ch2s2-10-2.html)

[https://www.ipcc.ch/publications\\_and\\_data/ar4/wg1/en/ch2s2-10-2.html](https://www.ipcc.ch/publications_and_data/ar4/wg1/en/ch2s2-10-2.html)

[https://www.ipcc.ch/pdf/assessment-report/ar5/syr/SYR\\_AR5\\_FINAL\\_full.pdf](https://www.ipcc.ch/pdf/assessment-report/ar5/syr/SYR_AR5_FINAL_full.pdf)

<https://www.edf.org/climate/methane-studies>

<https://www.energy.gov/sites/prod/files/2014/05/f16/Life%20Cycle%20GHG%20Perspective%20Report.pdf> (p.10)

[http://europa.eu/rapid/press-release\\_IP-18-4920\\_en.htm](http://europa.eu/rapid/press-release_IP-18-4920_en.htm)

<https://www.transportenvironment.org/publications/natural-gas-powered-vehicles-and-ships-%E2%80%93-facts>

## Building overcapacity

But current plans for the development of EU gas infrastructure have not sufficiently adjusted and are out of line with this decrease in demand. As Trinomics also found ‘ENTSOG’s 2017 TYNDP [Ten Year Network Development Plan] as well as the PCI list are based on expected gas demand levels for 2030 that are between 12.2 and 40.5% too high.’<sup>30</sup>

In addition, the planned Nord Stream II and Southern Gas Corridor pipelines will add an additional 65–86 bcm<sup>31</sup> import capacity. In short the EU has more than sufficient capacity to meet existing demand today and projected future demand.

Even the European Commission recognises that the end is near for investments in gas; ‘If the necessary commitment is ensured from Member States, promoters, regulators and stakeholders, the remaining bottlenecks can be largely addressed around 2020 or shortly after through the finalisation of the already on-going projects of common interest.’<sup>32</sup> However, as mentioned previously, the European Commission plans remain over-ambitious as they do not take into account the radical reductions in greenhouse gas emissions demanded by the Paris Agreement.

The challenge for the period beyond 2020 will be to decommission fossil fuel infrastructure, not build it.

## Growing risks from gas

Science has also increasingly called into question the so-called benefits of fossil gas over other forms of fossil fuels. The latest IPCC report to look at this issue adjusted the 20 year global warming potential of methane to 84<sup>33</sup> times that of CO<sub>2</sub> from the previously estimate of 72<sup>34</sup> times that of CO<sub>2</sub> and adjusted the 100 year global warming potential from 25<sup>35</sup> times to 28<sup>36</sup>.

In addition, as studies of emissions from gas infrastructure have increased so too has the knowledge of the risks.

This year, in 2018, the US based Environmental Defence Fund published a new study which showed methane emissions from fracking in the US to be 60% greater than previously thought.<sup>37</sup>

A recent analysis of studies on LNG emissions by Paul Balcombe and colleagues found that emissions from LNG (one of the favoured sources of new gas by the EU) can be 134% higher than emissions from burning the gas alone – making this LNG potentially worse than coal. It confirms US Department of Energy’s findings who observed that, ‘compared to domestically produced and combusted gas, there is a significant increase in the life cycle GHG emissions that are attributed to the LNG supply chain, specifically from liquefaction, tanker transport, and regasification processes’.<sup>38</sup>

In this context, use of gas, even as a short term fuel, is of increasingly questionable utility.

While the industry and governments have begun to recognise and even act in some cases on the escaped emissions from gas, these moves are far from certain to ameliorate the climate impact of gas. This Summer, in the United States, the Trump administration even reversed Obama-era rules to mitigate emissions from gas infrastructure just as the European Commission was proclaiming that it is ‘ready to facilitate more imports of liquefied natural gas from the U.S.’<sup>39</sup>

As far as the use of gas in transport is concerned, a new report<sup>40</sup> by Transport & Environment shows that using natural gas for transport is as bad for the climate as using petrol, diesel or conventional marine fuels. Burning gas in cars also emits as much air pollution as petrol and the limited advantage over compliant diesel cars could be eliminated by planned new standards, the research shows. The conclusion is that lawmakers must accept that fossil gas cannot help clean up transport and should start taxing it at the same rate as diesel and petrol.

### *EIB behind the scientific times/ blind to gas risks*

As knowledge of the climate risk of gas projects has evolved the EIB has failed to keep pace.

The EIB's Carbon Footprint exercise for the Trans-Adriatic Pipeline failed to adequately measure the true climate risk of the project. Rather than relying on up-to-date climate science the assessment used lower emissions factors from the 1995 report of the IPCC, published more than 20 years prior to the project assessment. The assessment also chose to exclusively use a global warming potential period of 100 years, failing to acknowledge the much higher warming potential in the short term. In addition, it did not take into account fugitive emissions from the gas extraction phase. It even assumed, contrary to the European Commission's long term plans, that maximum capacity of the pipeline would be 10 bcm.

In addition, the baseline alternative to the Southern Gas Corridor presented in the Carbon Footprint exercise was an increase of Russian imports and USA LNG. Therefore the assessment only assessed the project against *other* fossil fuel projects – not against climate risk per se. The assessment, even if conducted with the most up to date science, could still only have told decision makers whether it was a more or less carbon intensive project than other projects, not whether it was compatible with keeping global warming below 1.5°C or even 2°C.

A Bankwatch study showed that fugitive emission values from all stages of the Southern Gas Corridor, in over half of the methane leakage scenarios, stand either around the 3 percent threshold defined by the International Energy Agency (IEA) – beyond which fossil gas stops delivering a climate benefit as compared to coal – or well above this threshold<sup>41</sup>.

### *Renewable Gas*

Efforts by the gas industry to sustain public subsidies now include the promotion of 'renewable gas' as an allegedly clean, future significant part of Europe's fuel supply.

There are two serious challenges to this:

First, not all forms of renewable gases are significantly cleaner than fossil gas, let alone compatible with a net zero emissions society.<sup>42</sup>

Second, even under the most optimistic projections of the gas industry, the amounts to be produced are only a fraction of current gas supplies. The potential outlined by the gas lobby is also out of line with other independent projections of renewable gas

production potential. A recently published estimate of renewable gas by the ICCT finds only a fraction of the potential proposed by the gas industry. The International Council on Clean Transportation (ICCT)<sup>43</sup> estimates a potential of only 36 bcm of biomethane and power to methane rather than the 120 bcm proposed by the industry study.<sup>44</sup>

Furthermore, projections for renewable gas production, intended to maintain a business case for gas infrastructure, are also bolstered by the inclusion of large amounts of animal feed feedstock. With the global population expected to continue to grow by another two billion by mid-century, and together with changing diets, increasing pressure on global food security it is highly unlikely that it will be sustainable to divert animal feedstock, even if produced as second crops, to energy production.

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Smoke and mirrors: why the climate promises of the Southern Gas Corridor don't add up; <https://bankwatch.org/publication/smoke-and-mirrors-why-the-climate-promises-of-the-southern-gas-corridor-dont-add-up>

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<https://www.e3g.org/library/renewable-and-decarbonised-gas-options-for-a-zero-emissions-society>

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<https://www.theicct.org/publications/role-renewable-methane-eu>

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[https://gasforclimate2050.eu/files/files/Ecofys\\_Gas\\_for\\_Climate\\_Report\\_Study\\_March18.pdf](https://gasforclimate2050.eu/files/files/Ecofys_Gas_for_Climate_Report_Study_March18.pdf)

## Conclusion

**Given the urgency for the EU to end its subsidies to fossil fuels, it is time for the EIB to take its responsibilities and act in this regard. The EIB is a policy-driven institution, but part of its mandate (and its statutes enshrined to the EU treaties) is to provide long-term investments. With this longer-term perspective in mind, the EU Bank is in a position to justify immediately ceasing support to fossil fuels to align with the Paris Agreement.**

In a resolution<sup>45</sup> adopted in March 2018, the European Parliament already urged the Bank to *'align its portfolio with the global average temperature increase target of 1.5°C in line with the Paris Agreement, through the swift and complete phasing-out of fossil fuel projects and the prioritisation of energy efficiency and renewable projects'*.

As the EIB is reviewing its energy policy in 2019, it is at the crossroads and can now decide to change its path and lead on the fight against climate change.

Therefore it is concerning that, in an October 2018 interview to Interfax, EIB President Hoyer declared that *'at the time being, I don't think it would be responsible to say farewell to gas projects forever'*. Referring to the Trans-Adriatic Pipeline, he affirmed that *'I don't see a way not to finance [TAP] if our shareholders all insist on it and have it in their strategy'*.<sup>46</sup>

This casts doubts about the tools at the disposal of the EIB to enforce strong environmental and social standards in the projects it finances, as the Bank seems very vulnerable to Member States pushing for allegedly strategic fossil fuel projects. Too often, the EIB hides its responsibilities behind choices made by the European Commission and EU Member States to push for gas projects which feature on the EU Projects of Common Interest (the so-called PCI list).

## Recommendations

The review of the EIB energy policy is an opportunity for the bank to really align its activities with the Paris Agreement. Implementing its current Climate Strategy will not be sufficient in this regard. **There is no room left for business-as-usual.**

To this end, the EIB needs to shift its funds from all fossil fuels (including coal, gas and oil) to renewable energy and energy efficiency projects, in particular for small-scale, people-owned and controlled, decentralised projects. Below are key ways to do so:

- A)** Committing immediately to end any financing to fossil fuels exploration, extraction, transmission, distribution, storage, purchase and generation; This should apply to direct operations of the EIB as well as to its operations via financial intermediaries (from commercial banks to equity funds) for all fossil fuels;
- B)** Make any non-fossil fuel project financing conditional on company-level decarbonisation plans and compatibility with the Paris Agreement in order to reduce engagement with or support to clients whose business is in any way reliant on revenues from producing fossil fuels or based on installed fossil fuel capacities;
- C)** Adopt the energy efficiency first principle to ensure that the projects the bank finances would make sense in a cost-effective energy efficient environment. This would mean considering if cost-efficient, technically, economically and environmentally sound alternative energy efficiency measures could replace in whole or in part the envisaged investment measures. Specific recommendations for the EIB were elaborated in the Bankwatch report<sup>47</sup> on energy efficiency first principle.
- D)** Step up financial assistance to small-scale and people owned and controlled decentralised renewable energy projects with a strong sustainability objective. To do so, the EIB should widen support for renewable energy in EU countries currently underrepresented in the EIB's energy lending portfolio and develop country tailored approaches which identify barriers, opportunities and relevant financial mechanisms for such investments.
- E)** Update the EIB climate-strategy (which is supposed to undergo a mid-term review by the end of 2018) in order to reflect the recommendations of the IPCC report on a 1.5C temperature increase ■

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Text closed on 22 November 2018



This briefing has been produced with the financial assistance of the European Union, the Minor Foundation for Major Challenges and Polden-Puckham Charitable Trust. The contents of this briefing are the sole responsibility of the authors and can under no circumstances be regarded as reflecting the position of the European Union.