

Submission to the Public consultation on the EIB Energy Lending Policy Counter Balance - March 2019

Counter Balance is a coalition of European environmental and development organisations created in 2007 to specifically challenge the European Investment Bank (EIB) and push for its reform. Our mission is to make European public finance a key driver of the transition towards socially and environmentally sustainable and equitable societies.

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This submission is supported by our member groups, as well as by our partner in Slovenia "[Focus Association for Sustainable Development](#)".

Over the last decade, we have monitored many EIB projects in the energy sector, and have engaged in policy dialogues with the Bank on climate and energy matters. In particular, we coordinated NGO inputs around the 2012-2013 public consultation on the EIB Energy Lending Criteria (ELC).

We would like to underline the importance of the current EIB Energy Lending Policy review process for civil society. This policy is likely to be a document guiding the EIB decisions until 2025 and impacting its investments portfolio for the next decades. Therefore, the EIB needs to seize this opportunity to accelerate the greening of its energy portfolio.

Since 2012, when NGO inputs were largely centered around the demand for the EIB to get out of the coal business, the political and scientific contexts have significantly changed, making the current ELC largely obsolete. The consequences of the IPCC report on 1.5°C, as well as changes to the EU policy and legal frameworks, make it necessary for the EIB to accelerate the energy transition in Europe, and where it operates outside of the EU. Both the climate urgency and the EC proposal on a low-carbon strategy and related net zero emissions by 2050 need to be the starting point for EIB staff when drafting this new policy.

As the Bank of the European Union, and a self-proclaimed climate champion, the EIB also has a moral duty to align its operations with the objectives of the Paris Agreement to limit global warming to 1.5°C.

To reach this goal, the EIB needs to go beyond business as usual and cease all support to all types of fossil fuel projects (being coal, oil and gas, through direct or indirect operations). In parallel, the Bank needs to give true priority to energy efficiency and small-scale and decentralised renewable energy sources. Still, we recommend a cautious use of financial

intermediaries and financial instruments to reach this objective, since we have concerns about the transparency, additionality and financial viability of this type of operations.

QUESTION 1: Do paragraphs 15-27 above provide a reasonable characterisation of the long-term energy transformation? Are there additional dimensions that the Bank should consider when reviewing its Energy Lending Policy?

We welcome the Bank's statement in paragraph 27 that "*Meeting the objectives of the Paris Agreement will not be possible without significant efforts outside Europe and the EU intends to be exemplary in order to play a leading role in climate mitigation.*" We think this policy process is the right moment to demonstrate such exemplarity and play a climate leader role.

But we regret the fact that Box 3 detailing the EIB policy and political commitments does not refer to the President Hoyer statements at the One Planet Summit to align all EIB operations with the Paris Agreement by 2020.

In October 2018, the IPCC published its 1.5°C report 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. For Europe, which acknowledges its greater responsibility and capability to halt climate change, the switch to net-zero emissions must come much sooner. Integrating the climate urgency in all its operations should therefore be at the core of EIB policies and strategic decisions.

In this context, it is also worth noting that the EIB Climate Strategy adopted in 2015 is also outdated, and fails taking into account the IPCC 1.5°C report and the call for net zero emissions by 2050. We expect the mid-term review of the EIB Climate Strategy to update significantly this strategy and make it binding for the EIB to drastically decarbonize its lending portfolio and projects' pipeline.

In this regard, the EU 2050 long-term decarbonisation strategy, aiming at 'net-zero GHG emissions by 2050', is a key document that should guide the EIB. Policy coherence is needed to ensure that EIB investments contribute to this objective and do not contradict EU climate commitments in the long run.

In our view, this long-term vision is to guide the EIB. In paragraph 42, the EIB says that "*given that the majority of the energy assets financed by the Bank will be operating for 20 years or more, the Bank also needs to look substantially beyond 2030*", but we would even argue that the EIB needs to look at the longer-term, 2050 horizon and the corresponding emission reduction targets.

As a public institution, with a public mandate enshrined to the treaties establishing the EU, the EIB needs to be fully guided by a long-term vision focusing on bringing positive environmental and social impacts where it operates. In this context, we emphasize the importance of focusing on accelerating a fair transition, taking into account growing inequalities between citizens, and between territories all over Europe. This means that concerns over energy poverty should become part of the trends guiding EIB operations.

Need to look beyond projects

We oppose the argument often used by the EIB not to require more from its clients, which is to say that the Bank only finances projects, not clients. For instance, this is the case in the indirect support of the EIB to the coal business by providing credit lines and project finance to coal developers. In this respect, the EIB is lagging behind most advanced private banks. The

NGO Banktrack provides here a comprehensive list of private banks which are restricting their indirect support to coal-heavy companies and utilities: https://www.banktrack.org/campaign/coal_banks_policies. This should bring the EIB to better incorporate corporate welfare in its investments decisions.

As a consequence, the EIB needs to 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.

Such approach should also be replicated in the case of lending to infrastructure projects that support the expansion of the extractive industry. The EIB needs to get out of its “project” only approach, and better implement its standards which require to look into all indirect impacts of a given project. In the case of infrastructure projects (like a road to a coal mine for example) linked to the extractive industry, the EIB should refuse to grant its support.

One additional dimension to be taken into account is the potential role of the EIB as a climate leader if it gets out of fossil fuels. Such decision would send a strong signal to the market and has the potential to incentivise other banks and public financiers to do so. This would also largely reinforce the reputation of the Bank. If President Hoyer is serious when saying that we are all off track regarding the Paris Agreement and SDGs, then this option should be the priority number one. It would allow the bank to be ahead of the pack in taking responsibility to seriously fight climate change, using its limited resources to prioritise solutions to the climate crisis and setting the standard for other public banks.

One remark on paragraph 17 -“*by the middle of the century, if not earlier, fossil fuels such as coal, crude oil and even natural gas will no longer be used to any significant extent, at least in the absence of carbon capture and storage, to generate electricity, supply heat or fuel transport. This implies a radical transformation of energy systems*”. We share this analysis, and add that this fully applies to fossil gas.

In addition, we consider as “false solutions” the perspective of having Carbon Capture and Storage (CCS) and “green” or “renewable” gases playing a significant role in the future EU energy system. Therefore, the push for these technologies by the industry should not be used as an alibi not to operate this radical transformation that the EIB refers to. The EIB needs to look at the larger societal impacts of its operations and not feel constrained by the pressure from lobby and industrial groups.

Similarly, we opposed the vision in paragraph 25 that continued investments to ensure an adequate infrastructure are needed, if this is intended to promote energy security by locking-in the use of fossil fuels. Indeed, the best use of public resources for energy security is to invest in energy efficiency and demand reduction.

QUESTION 2: As set out in Box 1, the Bank believes it has a robust framework to ensure that energy projects being financed are compatible with long-term climate targets. Do you agree? Are there areas where the Bank can improve?

We disagree with the assumption that the Bank has a robust framework to ensure that energy projects being financed are compatible with long-term climate targets. The EIB has yet to align its financing with the Paris Climate Agreement and has continued to finance fossil fuel projects until today: between 2013 and 2017, the EIB lent 11.8 billion Euros to fossil fuel projects. A report by CEE Bankwatch Network shows that between 2008 and 2015, fossil fuels constituted at least 20% of the EIB’s energy sector lending.

In addition, 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.

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 are disbursed, there will be another peak in fossil fuel support.

Therefore, we disagree that *“the 2013 Energy Lending Criteria ensured that the EIB transitioned to a very large extent to clean energy finance”* (point 8 of the consultation paper). Climate Action represents an important proportion of EIB lending, but investments in projects detrimental to the objectives of the Paris Agreement are also significant.

The EIB has almost ended direct lending to coal projects via the introduction of its Emissions Performance Standards (EPS) at a level of 550g CO₂/kWh. The EPS has strongly impacted the Bank’s electricity generation and fossil fuel portfolios.

But apart from this mechanism to restrict fossil fuel support in the generation sector, there are no other mechanisms at EIB’s disposal to effectively rule out support to dirty projects for example for transmission or distribution.

As a consequence, we ask the Bank to ban all fossil fuel projects straight away in its future policy. Indeed, the current energy lending criteria did not offer significant protection against these harmful investments - and the tools described in Box 1 are not sufficient. The economic appraisal of fossil fuel projects (gas projects mainly), despite referring to shadow carbon pricing, currently shows weaknesses, especially since in the case of TAP the EIB only analyzed an economic lifetime of 15 years - while the pipeline when built is here to stay for 50-60 years as a minimum.

In a joint complaint to the EIB Complaints Mechanism from January 2019, together with Bankwatch, Friends of the Earth Europe and Re:Common, we pointed out that the EIB substantially underestimated the greenhouse gas emissions associated with the project. In the case of TANAP, the bank’s figures are 2.5 times smaller than those calculated by the project consortium, and for TAP the emissions estimated by the bank are 3.5 times smaller. One reason for these discrepancies is the EIB’s use of outdated methodologies which do not reflect contemporary scientific understanding of the climate impact of natural gas. The bank underestimated the global warming effect of methane, known as a relatively short-lived but extremely potent greenhouse gas, up to 86 times more powerful than carbon dioxide, according to the IPCC. **As a consequence, the EIB needs to fully reflect in its policy the high global warming effect of methane.**

In addition, while a pipeline of the scale of the Southern Gas Corridor is typically planned to be operational for about half a century, the EIB’s carbon footprint assessment does not consider the project over its full lifetime.

Furthermore, the complaint shows that the environmental and social impact assessments submitted to the EIB by project promoters also systematically underestimate ‘fugitive emissions’ – unplanned but inevitable releases of methane. These are a widely acknowledged source of GHG emissions in gas projects, expected throughout the exploration, production, processing, storage and distribution stages of the Southern Gas Corridor. These assessments also exclude key parts of the project such as the gas extraction and the pipelines carrying it through Azerbaijan and Georgia.

Nuclear

The EIB reiterates that it is technologically neutral and thus can support nuclear projects if they withstand the bank's due diligence process (see for example recent EIB operations in this field [here](#) and [here](#)).

We think this is the wrong approach. Instead the EIB should improve its framework to entirely stop financing or considering support to nuclear projects

Despite repeated attempts by the nuclear industry to present itself as a solution for climate change, it is not: building new nuclear power plants requires strong financial, political and institutional commitments, which undermine support to renewables and energy efficiency. Since each Euro can only be spent once it should go into real sustainable solutions instead of locking countries into centralised and dangerous energy systems for decades to come.

The World Nuclear Industry Status Report 2018 summarises the situation as follows: "The development of the world's nuclear industry currently faces economic, environmental, and safety concerns. A stream of problems must be dealt with, including, among others, the sourcing of funds; the attainability of uranium resources; the processing of nuclear waste; the safety issues within nuclear technology; public opinion and social acceptability; the aging of nuclear facilities and professional staff; the difficulty of ensuring nuclear non-proliferation; and of course competition from renewable energy sources. Past nuclear disasters at Three Mile Island-2 in the United States, Chernobyl in the Soviet Union, and Fukushima in Japan have all undoubtedly contributed to strong currents of anti-nuclear sentiment throughout the world." (WNISR 2018, p. 11)

The latest new plants builds in Europe, Finland's Olkiluoto 3 and France's Flamanville-3 are plagued by cost and time overruns: construction started in 2005 in Finland and 2007 in France, operation might start in 2019. In Finland the costs are estimated at around EUR 10,5 bn, more than three times the originally estimated price (EUR 3 bn). The project is ten years behind schedule. In France the costs are estimated at EUR 10,9 bn, as well more than three times the estimated costs and the project is eight years behind schedule.

Out of self-interest an institution like the EIB that is so dependent on its AAA rating should not get involved in a sector that is so financially risky as nuclear energy. This includes the beginning of the nuclear cycle: the mining of uranium and production of nuclear fuel, which causes severe environmental and health damage in the countries of mining and production.

In addition, safety upgrades, which are often mainly done to extend NPPs lifetime, irresponsibly increase the risk of severe accidents since aging material runs a higher risk of accidents. Additionally financing safety upgrades/lifetime extensions take away resources from better and more sustainable solutions, therefore the EIB should stay away from these projects.

Similarly it is hard to understand why the EIB would finance nuclear fusion, a technology that has over decades not fulfilled the promises of breaking through as an energy source but has instead proven to be a grave problem for resources. The same would be true for the EIB if considering financing small modular reactors, praised by the nuclear industry as "advanced reactors" allegedly solving the industry's problems of high costs and lack of operational safety. However, more, smaller reactors would pose a severe proliferation threat. Apart from that, after a short hype, small modular reactors suffer from a lack of interest given their high costs per MWh.

QUESTION 3: Within the broad areas of renewables, energy efficiency and energy grids, are there particular areas where you feel the Bank could have higher impact?

Current pledges under the Paris Agreement to cut greenhouse emissions, even if fully implemented, still leave the world on track for more than 3°C of global warming. 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 degrees of global warming. Fossil fuel projects do not meet that criteria.

This means concretely focusing on energy efficiency projects and integrating the Energy Efficiency First Principle in all its investment decisions, as well as giving priority to investments in decentralised, small-scale and community-led energy projects.

Sustainability of renewables

We would still like to highlight the need for the EIB to ensure that its investments in renewable energy sources reach high levels of sustainability, public participation and stakeholder engagement, and truly benefit local populations and territories.

For example, the EIB should stay out of the production of energy crops, as it triggers conflict between food and fuel production and in many cases led to a model of development which goes at the expense of poor people and the environment. The issue of large dams shows the need for the EIB to develop a strict definition of renewable energy, limiting the options for support to wind, solar, tidal, thermal and small-scale hydropower and small-scale, non food competing biomass projects.

QUESTION 4: How can EIB reinforce its impact towards ensuring affordability, addressing social and regional disparities and support a just energy transformation?

Europe's transition to a net zero carbon society implies a wide range of changes throughout its economy. New industries develop, creating new jobs requiring new skills and whole new sectors of activities. While this shift is primarily an economic opportunity, such deep changes will also have social consequences that need to be addressed. Supporting regions, communities and workers adapt to these changes and make sure they are implemented in a socially fair way will require carefully targeted financial resources.

The EIB, when taking investments decisions, thus should embrace an integrated approach unlocking the indigenous potential of the concerned region, rooted in a regional structural transformation strategy owned and carried out by the stakeholders on the ground.

QUESTION 5: In the case of new buildings, do you have an opinion on the proposed approach to support only buildings that go beyond the mandatory nZEB standard after 2021? What level of ambition should the Bank focus upon, inside and outside the EU?

We welcome the EIB commitment to “*support the required increase in energy efficiency investments through to 2030 across all sectors including industry, SMEs and the building sector*” and reiterate that this should be a priority for the EIB.

Nevertheless, we also think that how the EIB describes “Energy Efficiency First” does not reflect the most advanced thinking around the Energy Efficiency First Principle. Indeed, what the Consultation Paper does is to list Energy Efficiency measures that could be implemented, but it falls short of considering - for all EIB projects - what energy efficiency alternative projects could have been when deciding upon the support to a project. 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.

QUESTION 6: The Bank has developed a number of financial and technical assistance products to help promote energy efficiency in private and public buildings. Have you had any experience with these products? If so, do you have a comment or opinion as to how they can be further developed or improved?

N/A

QUESTION 7: Do you have lessons learned to share in order to improve the financing of energy efficiency in SMEs? Is technical assistance an important dimension? If so, do you have any views as to which type of technical assistance that is the most effective to provide?

N/A

QUESTION 8: Declining costs and competitive auctions are transforming a number of renewable markets (e.g. onshore wind, utility-scale PV). How can the Bank best support these relatively mature technologies? In the context of increasing market integration, is there a need for financial instruments to help attract long-term private finance?

N/A

QUESTION 9: Does the EPS for power generation remain an appropriate safeguard? Do you agree that adjustment should be made to support flexibility and adequacy? In light of recent developments in renewables, the Paris Agreement and the Sustainable Development Goals, would an exemption to the EPS for power plants in least developed countries continue to be justified?

The establishment of the EPS was a positive step back in 2013. But now its threshold is not up to the task anymore. Its level should be largely decreased, but in any case all fossil fuel projects are to be excluded from the EIB portfolio.

No exemptions to this rule should be allowed. Indeed, it is since 2009 that 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. 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. 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.

In light of the commitment to the Paris Agreement and the climate urgency, what is necessary is to act, and we don't see any room for the EIB neither to provide flexibility for some power plants - even operating for a limited number of hours, nor to keep the current exemption for isolated systems, small islands and developing countries.

The EIB's role should certainly not be to contribute to carbon lock-in by investing in gas power plants under the argument that these could play an important role in securing system

adequacy during the transformation period. Even less should the EIB allow exemptions for coal plants in developing countries since its role as a public bank should be to support sustainable solutions and not a long-term carbon lock in with various negative side effects such as health impacts.

Under the current Energy Lending Criteria, the EIB's support to fossil-fuel power generation only represented a small fraction of EIB lending ("*Over the period 2013-2017, EIB lending to fossil- fuel plants represented around 3% of total energy lending*"). Therefore, this is a low-hanging fruit to completely cease such support - for the reasons stated above.

QUESTION 10: Are there ways in which the Bank could provide more targeted support to distributed resources (demand response, small-scale generation and storage projects)? Are new business models or technologies emerging in this context, with specific financing needs? Is the Bank's portfolio of financial products and instruments adequate to support this technological transition?

The priority for the EIB should be to assist the development of smaller projects in the renewable energy field, especially community-led projects.

The focus on niche technologies and the promise of technological solutions to the climate crisis should not be a primary focus for the Bank. In the past, too many experiences - such as the hype around CCS - turned out into major fiascos. Therefore, we expect the EIB to take with great caution the emerging narrative about the gas sector about to "green itself" thanks to renewable gas, hydrogen, power to X, e-gas and the likes.

We also note that in the past, the EIB has supported wrong investments in technology innovation for industrial plants that should have been dismantled instead. For example, in the case of the [Arvedi](#) steel production in Italy, the EIB used guarantees under EFSI to prolong the lifetime of a steel factory built in 1896 in Trieste, despite its associated environmental and health impact.

QUESTION 11: The Bank has developed a number of products - both financial and advisory - targeted to supporting innovative energy projects. Do you have a view on these instruments? Can the Bank improve or better target the financing needs of the energy demonstration sector?

In relation to point 22 noting that "[the EIB] *also invested EUR 625m in funds that take small equity participations in the energy sector, mainly in renewable energy and energy efficiency*", we encourage the EIB to be cautious regarding its support to equity funds active in the energy field, as the Bank does not hold enough control on these. We rather think the priority should be for the EIB to invest directly in smaller projects where it can bring more added-value.

Bankwatch's issue paper on information disclosure by EIB's Financial Intermediaries and a report on adverse impacts of hydropower projects in the Balkans demonstrate shortcomings of the current EIB's approach to intermediary lending.

The EIB is outsourcing information disclosure and due diligence to Financial Intermediaries but this results in zero information disclosure on final beneficiaries and substandard project appraisal and monitoring. No information disclosure in a language and manner that local communities can understand means that communities' access to the EIB CM is limited.

This is corroborated by EIB's own findings, in the Evaluation of EIB Intermediated Lending through the Investment Facility in ACP that concludes that "monitoring and reporting are found to be insufficient to track and demonstrate policy results". In line with recent Decision by the

European Ombudsman that recommends redrafting the Article 5.13 of its Transparency Policy concerning intermediated loans, the EIB should modify its approach to information disclosure to make it unambiguous and effective. This should be at minimum mentioned in the new EIB Energy Lending Policy.

QUESTION 12: Some renewable technologies or applications remain relatively expensive. Should the Bank continue to finance such projects, even in the absence of an innovative component?

Large dams

Too often under the objective to provide “affordable energy for all”, big dams are promoted and financed by the bank - especially outside of the EU - despite the fact that they do not only have negative environmental and climate impacts but also do not result in providing access to electricity for the local populations.

As a watchdog organization, we have come across numerous hydropower projects bearing significant harmful impacts on territories and populations. Some of these projects resulted in complaints lodged towards the EIB Complaints Mechanism and to the European Ombudsman (like in the cases of Bujagali in Uganda and Nam Theun 2 in Lao).

There are complex and significant risks and impacts typical of large hydropower schemes, such as resettlement, GHG emissions or downstream impacts and safety risks. Without adequate mechanisms to ensure their compliance as is the situation now, they are likely to remain unimplemented. And we still have doubts about how the currently under design guidelines on hydropower projects will address these issues.

There are significant limitations to the ability of the EIB to make a thorough use of the guideline for hydropower projects, starting from a lack of resources – especially staff – available to implement the guideline and manage properly the complex risks described in the guideline. This is especially true if the EIB is serious about monitoring further its operations via financial intermediaries – for which the bank’s approach is typically to outsource due diligence to the intermediary. Similarly, the EIB currently lacks human resources to undergo genuine human rights impact assessments at the project level, which are definitely needed in relation to hydropower projects given their potentially significant social and environmental impacts.

In addition to these resources limitations, it appears that in a majority of contexts – due to poor national governance or accountability systems – it would be impossible for the bank to uphold its very relevant principles and steps described in the guideline, especially in the case of large dams which bear significant (and not seldom trans-boundary) environmental and social impacts - often causing irreversible impacts to freshwater biodiversity and ecosystem services that are culturally and economically valuable to affected communities living downstream. Dam-building upstream as well runs counter against downstream efforts to protect deltas against rising sea levels, caused by climate change.

Well-established and effective legal and decision-making frameworks need to be in place for integrated river basin management, where the building of dams in trans-boundary rivers is concerned, with informed participation of governments, civil society, and other stakeholders in an open and inclusive manner.

The experience of EIB financing to large hydropower projects, such as Bujagali and Nam Theun 2 should serve as a cautionary tale, ranging from poor economics of the projects, serious problems with resettlement of affected communities to limited attention paid to environmental impacts. In addition, the internal grievance mechanisms of the Bank underwent strong pressure from EIB services (as testified by a letter from President Hoyer about Bujagali,

calling on EIB staff to cooperate with the CM) and ultimately did not prove useful to improve the situation of impacted communities. Both cases had to escalate to the European Ombudsman.

In this context, we don't think that the publication of the EIB hydropower guidelines would significantly change the picture: a fundamental problem with the EIB is about its accountability, and how it operates on the ground, not with its standards themselves – even if one may always consider them perfectible.

The recent approval of an EIB loan to the Nenskra project in Georgia also showed the weaknesses of the bank's approach to the definition of indigenous peoples and requirement to obtain the Free Prior and Informed Consent (FPIC) of affected communities. Here again, the lack of enforcement of EIB standards has helped to implement political decisions of the Georgian government. Under political pressure, EIB standards and principles weigh little.

In connection with the last point, the EIB is unfortunately paying too little attention to political and local contexts, especially when it comes to repression on human rights defenders. In this context, we call on the EIB to step up its human rights due diligence at project level instead of hiding behind political green lights by other EU institutions (European Council, European External Action Service, European Commission). Systematic Human Rights Impact Assessments should be carried out by the bank when operating in sensitive contexts. The EIB can learn from other public lenders that faced extreme difficulties with hydropower projects in fragile environments that affect indigenous people. For instance FMO intends to strengthen its human rights and indigenous rights commitments facing the public outcry over killings connected to the Agua Zarca project in Honduras.

Considering all these remarks, we make the following recommendations:

As part of its new Energy Lending Policy, the EIB should ban all financing to large dams (as defined by ICOLD). Collectively, the well-described impacts of such hydropower schemes identified in the guideline paint a compelling picture about why the EIB should avoid supporting such projects. We believe that the EIB's investments in these high-risk projects must be redirected towards less impactful renewable energy sources such as solar or well sited wind turbines with great urgency.

Indirect support to hydropower projects via financial intermediaries under the current setup is not ensuring adequate uphold of the EIB standards and should not be enabled anymore by the EIB. The EIB should not provide support or hold assets of any funds that acquire and or issue large scale hydro-bonds.

On the strategic level, development of hydropower in the recipient country should be based on a national energy strategy that has undergone a Strategic Environmental Impact Assessment (SEA) and river basin wide cumulative impact cum carrying capacity assessment involving public consultation process procedure where a needs assessment, demand management and assessment of various alternatives for satisfying energy needs are given priority. Attention should be paid to the impacts of climate change on hydropower generation levels, and over dependence on hydropower must be avoided. Rehabilitation and increased efficiency of existing hydropower plants (or even the decommissioning of dams) has to be given priority before new project development. Based on strategic environmental assessment of the river basin management plans, "no go zones" should be created where implementation of any hydropower project will be prohibited. And water body status has to be determined (from high status to heavily modified) in order to define sufficient environmental flows downstream from the water intake.

Apart from the question on whether the dam meets the social and environmental criteria and generates the economic development attributed to their construction, a closer look at the financial viability of the dam construction is strongly recommended.

In case the project would prove unviable, consumers and taxpayers will ultimately bear the cost by paying higher prices or more taxes. Higher prices as well make electricity non-accessible for the lowest income groups in society, which runs counter to the European Commission and the EU's Development Ministers commitment to achieve the UN's Sustainable Energy for All Initiative by 2030 as well as its commitment to achieve SDG 7.

At a project level, the EIB should only support projects that meet international standards, including the recommendations of the World Commission on Dams. In practical terms we demand that:

- The project does not involve large dam reservoirs and/or involuntary resettlement.
- Hydropower dams in the tropical zone are controversial from a climate perspective. Dams in tropical countries produce high levels of methane, a greenhouse gas significantly more potent than carbon dioxide.
- The project does not affect the water flow, silt flow regime and wildlife circulation.
- The project does not block fertile sediments carried by the river. These natural fertilizers are crucial for survival of riverine biodiversity, nourish the soil, which sustains agricultural production downstream and is also necessary for the sustainable existence of river deltas.
- Increasing silt loads damage turbines and could lead to flooding and collapses.
- The project does not affect the lateral and longitudinal connectivity of the river and also does not affect the groundwater regime.
- If the project involves peaking power generation, then the impact of such peaking power generation should be assessed and steps taken to minimize, compensate or avoid such impacts.
- The project has a project operating mechanism involving the affected community representatives during construction as well as operation stages.
- The project performance is reviewed every ten years with a view to renew its license and also make necessary changes to achieve updated social objectives.
- The project does not affect biodiversity, nor people's water needs.
- The project does not affect possible investments to rehabilitate and increase the efficiency of existing units in the project area.
- Studies of earthquake resistance are required.

QUESTION 13: In light of the long-term nature of the network development plans, which type of projects should the Bank focus upon? In addition to PCIs, should the Bank prioritise newer investment types, for instance in digital technologies?

Projects of Common Interest (PCIs) - especially gas ones - should not be automatically supported by the EIB, since other assessments are needed to ensure that all EIB-supported projects are in line with the Paris Agreement. In paragraph 9 of the consultation paper, the EIB indicates that over the last 5 years, the Bank has supported 30 PCI projects, lending over EUR 5 bn. We think this is problematic regarding gas PCIs. Examples of useless and harmful projects being part of the list (such as Midcat, TAP, TANAP, Krk LNG terminal, etc) are telling, and show that a more robust economic assessment of PCI projects is needed. The EIB should be in a position to carry out such assessment without relying on the European Commission or ENTSO-E and to escape political pressure from Member States.

The fact that a project is on the list of PCIs doesn't mean that it is necessarily a viable and needed project, as the case of MidCat shows: the permission to build the central portion of this gas pipeline project was refused on grounds of lack of necessity and high costs by the

relevant Spanish and French regulators. This decision was framed in the context of the European Union's strategy to reduce greenhouse gas emissions. This is not only a slap into the face of the PCI list, but it might also mean as well that other sections of the pipeline that have been built yet will be left stranded. Given that this has economic implications, the lesson for the EIB should be that additional due diligence on the necessity of the project, greenhouse gas emissions and economic viability are urgently needed - unless fossil fuel financing is excluded per se.

Our recent complaint on the climate assessment of the EIB loans to TAP and TANAP show that actually the EIB does not genuinely implement what it states in its paragraph 33 of Annex IV: *"The EIB undertakes a careful assessment of the economic case for gas infrastructure. Environmental externalities are always taken into account, both in terms of GHGs and other pollutants. The Bank periodically reviews the key element of its approach, including economic life, the assessment of renewables as alternatives to natural gas and methodologies for the valuation of benefits in terms of supply costs and security of supply."*

The bank should focus only on sustainable projects, not detrimental to Paris Agreement. The role of the EIB should be to accelerate and deepen the energy transition, not to slow it down by continued investments in gas infrastructure with long-term lock-in effects.

Point 55 notes that *"gas networks and conventional infrastructure can also be considered when contributing to security of supply and meeting the Bank's standards."* In our view, the Bank's standards should be reinforced so that such type of investments actually do not meet the requirements of the Bank and are effectively ruled out from the Bank's pipeline. Not being harmful to climate objectives means stopping investing in fossil fuels.

QUESTION 14: What is your view on the investment needed in gas infrastructure to meet Europe's long-term climate and energy policy goals, while completing the internal energy market and ensuring security of supply? What approach could strike the right balance to prevent the economic risk of stranded assets?

The inconsistencies of the European Union in the fight against climate change - and how this is counter balanced by a strong rhetoric on energy security leading to support to fossil fuel projects - should not impact the EIB. Indeed, the EIB has enough arguments (on the climate and economic front) and policy/strategic orientations coming from the EU to refer to in order to equip itself with strong tools to refuse support to gas infrastructure and prioritise sustainable projects. The fact that gas PCI projects are not climate-proof, or that some EU Member States may include gas projects in their respective national energy and climate plans (NECPs) should not provide a cover for the EIB to maintain business as usual.

Our view is that there is no room for public money to support any gas infrastructure. "No new infrastructure!" should be a starting point. There is no balance to be struck here, but a need for the EIB to face the future.

Continued investment in gas projects, like other fossil fuel projects, is incompatible with the Paris Agreement and long-term decarbonisation targets. Gas projects such as gas pipelines and LNG terminals last as long as 50 years or more. The recent IPCC report shows that, at current rates, the world may already have warmed by 1.5 degrees 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. 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.

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. The fact that *"the EIB recognises the changing case for investment in gas. In the light of the EU 2030 climate and energy targets, there may be a risk that some new investments to expand gas network capacity may become stranded assets before the end of their typical economic and technical lifetime"* should lead it to re-consider any investments in the gas sector.

Today, the EU is already oversupplied with import capacity. Total gas import capacity is approximately 700 - 750 bcm per annum. In 2017, gas imports were only 360 bcm for a total gas demand of 491 bcm (or 488.9 bcm). 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. Yet the EIB is considering to finance one more LNG project, the Krk LNG Terminal, regardless that not even local gas distribution companies have showed any interest in the pre-purchase of gas. The EU Commission notes that it currently has about 150 billion cubic meters of gas import capacities spare. 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.

The EIB itself acknowledges that *"European demand for natural gas is expected to decline gradually over the coming decades, with all substantial usage in power generation, mobility or heating dwindling by 2050."*

The gas industry 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 degrees 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 have recently agreed an energy efficiency target of 32.5%. The EU's recent commitment to the Paris Agreement of reducing GHG emissions by 40% still is only in line with global commitments which will restrict global warming to less than 3.2°C.

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.'

In addition, the planned Nord Stream II and Southern Gas Corridor pipelines will add an additional 65-86 bcm import capacity. In the short term 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.' The challenge for the period beyond 2020 will be to decommission fossil fuel infrastructure, not build it.

Then, the climate impacts of gas are also extremely problematic. 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 times that of CO₂ from the previously estimate of 72 times that of CO₂ and adjusted the 100 year global warming potential from 25 times to 28. 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.

As far as the use of gas in transport is concerned, a [new report](#) 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.

Then, we would like to oppose the views of the EIB in its paragraph 23 *“In addition, in the context of 2050 targets, as natural gas usage declines, gas infrastructure may continue to be used by alternative energy carriers: biogas, hydrogen or synthetic methane. The development of these technologies may enable the continued use of the existing gas infrastructure.”*

The EIB should not buy the arguments of the gas industry on this front. 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.

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 (<https://www.theicct.org/publications/role-renewable-methane-eu>). The ICCT estimates a potential of only 36 bcm of biomethane and power to methane rather than the 120 bcm proposed by the industry study. A recent E3G report also questions these “decarbonised gas options”: <https://www.e3g.org/library/renewable-and-decarbonised-gas-options-for-a-zero-emissions-society>.

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.

QUESTION 15: Should the Bank refrain from supporting hydrocarbon production, in addition to exploration? If so, should gas be treated the same as oil? Within and outside the EU?

Matching the World Bank announcement of a ban on upstream oil & gas projects should be bare minimum, as all investments related to hydrocarbon should be removed from eligible sectors of intervention for the EIB, in and outside the EU.

As the EIB financed only a very small number of projects in that field during the period 2013-2017, this is a low-hanging fruit to exclude such activities from the scope of the EIB energy lending policy.

QUESTION 16: Where can the Bank most usefully focus its support - either financial or advisory - to meet the Sustainable Development Goals outside the EU and better support the scaling up of renewables, energy efficiency and electricity grids in a developing country context?

We welcome the Bank's commitment to a 35% target for climate action in developing countries by 2020, and think this target should be increased for the post-2020 period.

The arguments developed above in this submission also apply to investments outside of Europe, as well as our recommendations to stop funding fossil fuel projects and large dams, in parallel to prioritising energy efficiency and small-scale, decentralised renewables.

Then, we would like to highlight that it is important for the EIB to work with third countries in supporting their sustainable development and the development of EE/RES, but that current nationally determined contributions (NDCs) in a large majority of countries fall short of delivering on the objectives of the Paris Agreement. Hence, the EIB should avoid an over reliance on current NDC and related national strategies.

In its energy lending outside of the EU, the EIB as an EU body is obliged to adhere to the objectives of EU external action set in Article 21 of the Lisbon Treaty. These objectives include support for democracy, the rule of law, human rights and the principles of sustainable economic, social and environmental development of developing countries with the primary aim of eradicating poverty.

The European Parliament, Commission and Council are providing an EU guarantee for the EIB against losses under loans and loan guarantees for projects outside the Union. The decision contains clear guidance for EIB energy lending in countries outside of the EU that are not covered by the Cotonou Agreement. This legally binding document obliges the EIB to phase out financing projects detrimental to the achievement of Union climate objectives, and gives a clear direction for the EIB lending outside of the EU. The EIB should increase mitigation efforts and phase out detrimental projects, which would lock countries into high-carbon energy infrastructure in its energy lending outside of the EU.

Generally the EIB's portfolio of energy funding to African countries has a strong orientation towards the construction and restoration of hydropower dams and the refurbishment and expansion of power grids. It seems that the EIB is, at the moment, not well equipped to finance clean energy projects in the least developed countries. Hardly any loans in the last years were granted in ACP countries for renewable energy and energy efficiency (excluding large dams) which would provide an alternative option better suited to reaching the poor, especially in rural areas. As it currently operates, we suggest that the scope and extent of EIB lending operations outside the EU neighbouring countries is reduced until such time as the Bank can demonstrate consistent fulfilment of its development obligations.

The EIB energy investments outside of Europe should focus on the Neighbourhood Region and on poverty eradication and access to energy for local people, targeting local demand, while avoiding the export oriented energy investments or other investments aimed at providing energy for industrial users active in energy intensive sectors like oil, gas, mining and carbon-intensive production, or infrastructure that such industrial users may need. For each project the Bank should seek full transparency on the existence of direct benefits for the local population and in particular it should address the needs of rural populations without electricity

access.

It is crucial that the EIB improves its environmental and social impact assessments. Projects done outside the EU should meet both local and EU standards in terms of environmental and social issues. Projects should undergo an adequate appraisal process: including consultation with the local population and country representatives of all levels, transparency (revenues, monitoring and evaluations) and an ex-post evaluation of each of the projects. Project assessments should not be limited to the specific project financed, but should consider impacts related to the connected projects. For instance, pipeline projects should consider impacts of wells; transmission lines should consider impacts of power plants or impact on electricity production and the potential export. Similarly, assessment of new energy facilities should include possible impact of related infrastructure. The EIB needs to pay specific attention to the shrinking space for civil society, which is relevant in an increasing number of countries and often in the case of energy projects. In countries with specific NGO laws and a reputation for harassment of activists the outcomes of public consultations need to be scrutinised very carefully and the possibility to bring up concerns against projects needs to be secured.

For all energy projects outside of the EU, the Bank shall include in the ex-post evaluation performance indicators in relation to development, environmental and human rights aspects of projects funded, which will ensure that the bank performance is in line with the obligations from the Lisbon Treaty article 21.

In this context, we would like to highlight that the EIB should not rely on biodiversity offsetting schemes to address biodiversity losses and broader environmental impacts of the energy infrastructure projects it supports. As expressed in our [joint report](#) with Re:Common “Biodiversity Offsetting, a threat to life”, biodiversity offsetting is deployed by private companies – with the support of governments and the legitimization of some conservation organizations and academics — to greenwash their reputation and continue with business-as-usual. Biodiversity offsetting projects are mainly top-down and imposed on communities with little regard for their well-being. This mechanism is nothing but a license to destroy, and for a public bank like the EIB, the damage to nature and communities should not be seen as an inevitable price to pay for development and economic growth.

Investments into projects with state ownership or guarantees should also be assessed as an integral part of the national strategies (and the impacts of these energy strategies). In such a case strategic environmental assessment should be required and taken into account by the Bank. National strategies (or even positions in international climate negotiations) to combat Climate Change should also be considered.

There are several environmental principles in the Lisbon Treaty that should be of central importance to the energy policy of the bank:

- The integration principle (Article 6) requires that environmental considerations are appropriately weighed in all aspects of the Bank’s energy sector lending policy and in all the projects it finances.
- The EIB should aim in its energy policy, in accordance with EU environment policy, for a high level of protection based on the application of the precautionary principle, and the polluter pays principle (Article 95 (3) and Article 174 (2)).
- Any restriction in terms of access to environmental information, public participation in decision-making, and access to justice in environmental matters would go against the definitions and objectives of the Aarhus Convention.
- No ambiguity about the social principles incorporated in the Charter of Fundamental Rights of the European Union (the “Charter”) through the energy projects that the Bank finances should be allowed.

In order to promote an urgent transition toward a low carbon economy, the European Union should concentrate its financial resources on its Member States, particularly at a time of continuing severe economic crisis and the accompanying difficulties for national governments in mobilising additional public resources. Therefore the EIB should significantly redirect its energy lending towards the European Union, instead of lending to large-scale fossil fuel infrastructure in neighbouring countries such as the Southern Gas Corridor, planned for boosting energy resources export to Europe .

In EU neighbouring countries, the EIB should support the development of renewable energy and energy efficiency through investments in the production of those technologies in the countries outside of the EU (rather than just the export of the technologies). Therefore, the EIB can ensure unique additionality through supporting renewable energy and energy efficiency investments in neighbouring countries, and ensuring that new technologies are affordable by investing in smaller scale renewable energy investments. Nowadays, there is an uneven distribution of clean energy investments within and outside of the EU, and the direction of investment needs to be significantly changed.

The major obstacle in the way of developing truly renewable energy and ensuring energy efficiency, both in the immediate neighbourhood as well as in the Global South, is the lack of a suitable legal framework to provide the long-term sustainability of projects and programs. In addition, a lack of awareness regarding EE and RE projects means they appear to be of high risk as new and more efficient technologies still not fully available. EIB's financing therefore needs to be embedded in a wider strategy of EU policies, programmes and instruments in different regions.

Taking into account that renewables also have significant potential to harm the environment and communities, any renewable energy project should be based on a comprehensive consultation with local communities on the basis of early information and without any kind of pressure. Projects should also be small in scale and decentralised, based on sustainability criteria to limit the possible negative impacts of renewable energy as described above.