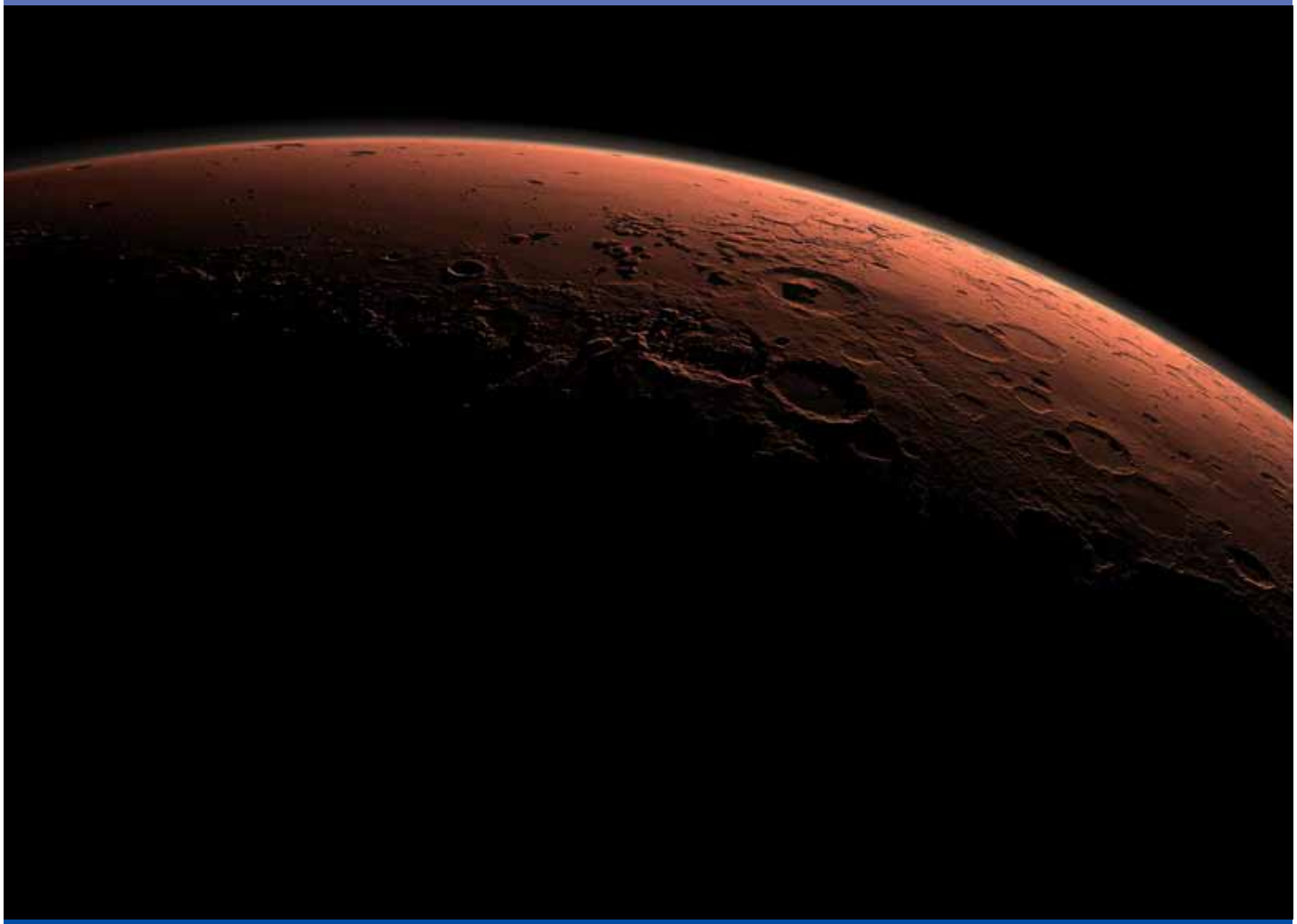
CEE bankwatch network

Carbon rising

European Investment Bank energy lending 2007-2010



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Executive summary

With a lending portfolio of EUR 72 billion (2010), the European Investment Bank (EIB) - the European Union's house bank - aims to support the implementation of EU policy. In 2010, roughly 24 percent of the bank's lending or more than EUR 17 billion was devoted to the energy sector[1], making energy the bank's second largest lending sector after transport and representing a significant increase in its importance in the bank's lending over the four years since 2007.[2]

Member States have endorsed the Europe 2020 Strategy that envisages the mobilization of EU resources for reaching climate and energy targets for 2020, namely reducing carbon emissions by 20 or 30 percent, improving energy efficiency by 20 percent and increasing the use of renewable energies by 20 percent. With climate change high on the European political agenda, it is appropriate to ask where this 17 billion has gone and whether it has indeed been used to support European policy objectives?

European energy and climate policy is advancing rapidly, but the EIB is not yet in step with the most recent requirements of 80-95 percent cuts in EU greenhouse gas emissions and almost total decarbonisation of the energy sector by 2050.

Bringing in the 2050 perspective casts a new light on the EIB lending. The European Commission estimates that the transition to a low-carbon economy will require an increase in investments of EUR 270 billion annually over the next 40 years[3]. Some of these investments require public support, e.g from public banks, in order to be economically viable.[4] Yet under the current EIB energy policy, adopted in 2007, "Clean Energy for Europe: A reinforced EIB contribution", the bank has continued supporting the fossil fuels industry, thus impeding the transformation. Fossil fuels remained the most heavily supported compared to other energy sources while energy efficiency measures remain a marginal part of EIB energy lending. This is particularly alarming in view of the fact that although the EU is on track to meet its 2020 renewable energy and greenhouse gas reductions targets, it so far looks set to miss its 2020 target of increasing energy efficiency by 20 percent compared to business as usual.

The dominant type of EIB loans in the energy sector was lending to fossil fuels. In 2007-2010 this made up 33 percent (EUR 16 billion). In the same period renewable energy was supported with over 13 billion EUR.

Both lending to renewables and fossil fuels are on the rise. EIB support for renewables in 2010 reached EUR 5.8 billion, with EUR 5 billion for fossil fuels. The bank managed to increase its lending to renewables, but failed to stop increasing its lending to fossil fuels (compared to 2007 lending for fossil fuels had doubled by 2010).

The EIB has developed criteria restricting its support for coal projects, but this has not prevented the bank from financing coal power plants, e.g. large installations in Slovenia and Germany.

At the same time the most socially and environmentally beneficial type of energy investment - **energy efficiency – has been largely neglected by the bank**. The fact that a mere 5 percent of all energy investments

have been spent on real energy efficiency is the largest shortcoming of the bank in the energy sector.

In the EU New Member States the EIB's energy lending has predominantly supported high-carbon types of energy, thus petrifying the current unsustainable energy system in the eastern part of the EU, and locking the EU-12 into an unsustainable energy future.

A very small portion of EIB lending to renewables (6 percent) and energy efficiency (16 percent) was allocated in the New Member States. The share of renewable energy sources in the electricity and heat generation lending in NMS is also twice as small as that in the EU-15 and reached only 36 percent.

The EIB's Climate Action programme was also not sufficiently effective in pursuing its climate change objectives in the region. A mere 10 percent of EIB lending in New Member States in between 2008 and 2010 could be classified under Climate Action. This is two and a half times less than in other Member States. The majority of EIB Climate Action financing is thus taking place in the EU's most developed countries, and much more emphasis should be put on ensuring that EIB funds support EU cohesion in promoting sustainable energy across the Europe.

The EIB did not manage to implement any of its commitments and targets related to financing of renewable energy sources and climate protection in the New Member States. Therefore it should develop a policy-based well-tailored approach to countries where investment opportunities are smaller. This would require a proactive approach in seeking clients and providing technical assistance, as well as closer cooperation with local financial institutions.

Outside of the EU the most heavily supported type of energy was fossil fuels (almost 40 percent). The share of renewables in the overall energy lending outside of the EU was only 19 percent. Hardly any loans went to the least developed countries of ACP (Africa, Caribbean and Pacific).It seems that the EIB, which outside of the EU works under a development mandate,[5] is at the moment not well equipped to finance clean energy projects in the least developed countries.

Thus the EIB should urgently develop a strategy for increasing support for projects contributing to reduction of CO2 emissions and for phasing out financing for projects detrimental to the climate as stipulated in the Council and Parliament Decision on granting the EIB guarantee for financing outside of the EU.[6]

However, the EIB is reluctant to make commitments to dramatically change its lending practices. In 2002 it obliged itself to allocate 15 percent of energy lending for renewables. 6 years later this target was raised to only 20 percent. Its new Climate Action indicator showing which projects contribute to EU climate objectives has also been set at only 25% in 2012. Much more would be expected from a policy-oriented institution. Otherwise not only will the EIB not contribute to achieving the EU's long-term objectives but it will also prevent them from being achieved due to locking the energy sector into long-lasting fossil fuel infrastructure.

Bearing in mind that much of the energy infrastructure constructed today will be in use even beyond 2050, this report recommends the EIB to make forward-looking decisions now and revise its energy policy in line with climate science as well as with the EU 2050 objectives and Roadmaps. The EIB should immediately cease support for the most carbon intensive types of energy, starting from coal. The bank should also develop and implement a plan to phase out lending for other fossil fuels and prioritise energy efficiency as the most important area of intervention. Climate change considerations should be mainstreamed into EIB lending through the establishment of a 50 percent target for Climate Action by 2015. The EIB should also put more focus on its energy and climate policy effectiveness in New Member States through the development of targeted instruments and technical assistance supporting small-scale renewable energy investments if it seeks to avoid perpetuating a two-tier EU.

Introduction

The European Investment Bank (EIB) – the EU's house bank - is the world's biggest public lending institution. With a lending portfolio of EUR 72 billion (2010) it is bigger even than the World Bank, and was set up in 1958 to support the implementation of EU policy.

In 2010, over EUR 17 billion (24percent) of EIB lending was devoted to the energy sector , making it the bank's second largest lending sector after transport. This also represented a significant increase in the share of the energy sector in the bank's lending over the four years since 2007.

So where has this 17 billion gone?

Climate change is high on the political agenda and European energy and climate policy is advancing rapidly. So has the EIB's lending supported European policy objectives on climate?

While the EIB's energy policy dates from 2007 and takes into account the goal of reducing EU greenhouse gas emissions by 20 percent by 2020 compared to 1990 levels, it is not yet in step with more recent policy developments that require 80-95 percent cuts in EU greenhouse gas emissions and almost total decarbonisation of the energy sector by 2050 (see section 2).

In 2009 a Bankwatch analysis of the EIB's energy lending[7] showed that between 2002-2008, for each EUR 1 million loaned for renewables roughly EUR 3.3 million was loaned for oil, coal, gas or large hydro and nuclear. Half of the overall energy portfolio was made up of fossil fuel loans, rising to 70 percent of energy generation loans, and loans for fossil fuels were increasing in absolute terms. The bank's investments for renewable energy were vastly insufficient compared to what is required to promote transition to an energy efficient, renewable energy based economy. There was also a massive imbalance between the EIB's investments in the old EU Member States, where the bank was investing significant amounts in renewable energy, and the New Member States, where there was very little energy lending generally, and even less for renewable energy. This analysis aims to see how the situation has changed since then.

As shown in this study, although the EIB has significantly increased its lending for renewables, there is still a large gap between the investments into renewable energy in the EU-15 (old Member States) and the New Member States. The level of energy efficiency investments is still extremely low. The share of fossil fuels in the EIB's portfolio has dropped, but in absolute terms investments into fossil fuels have increased reaching the level of EUR 5 billion in 2010. This is particularly of concern given that fossil fuel infrastructure built now will still be working in 2050, thus locking Europe into fossil fuel consumption and dashing its chances of meeting its 80-95 percent greenhouse gas reduction targets.

In summary, this analysis shows that some improvements are taking place, but the EIB needs to be more ambitious if it is to contribute to the almost total decarbonisation of the EU energy sector by 2050. It needs a new and ambitious energy policy that brings the bank into line with climate science and EU policy. The review of the EIB energy policy that has been announced for 2012 creates the opportunity to do so.

EU policies on energy and climate relevant to EIB lending

There is no one document which constitutes an EU-wide integrated energy and climate policy. Instead, EU energy policy involves a number of elements that can be found in documents of various levels of importance from The Treaty through to non-binding policy documents published by the European Commission. Their scope covers energy sources exploration, trade, and transport and they are used in virtually every sphere of social life and economic activity.

EU goals for 2020 and 2050

EU policy documents rarely define which individual projects should be financed by the EU house bank. In this situation guidance for EIB lending is included in directions for the development of energy use defined in EU goals like the Climate and Energy package approved in December 2008 by the Council. The targets in the package include by 2020 reduction by 20 percent of emissions of greenhouse gases, reaching 20 percent of renewables in total energy consumption in the EU and increasing by 20 percent energy efficiency in the EU (compared to projections). The last target is non-binding. The EU is on track to reach the target for renewables, and some additional effort is needed to achieve the greenhouse gases reduction target, while in the field of energy efficiency the EU is expected to reach only half of the planned target[8]. These assessments clearly show that if EIB wants to fulfil its mandate by fostering EU policy objectives it should prioritise lending for energy efficiency.

Decision makers are starting to realise that a 2020 perspective is not sufficient for investment decisions in the energy sector. A nuclear power plant planned today will not have an impact on reaching the 2020 targets because it will become operational only after this date. The EU policy framework also proposes directions beyond 2020. In October 2009 the European Council, the highest decision-making body of the EU, called for at least 50 percent worldwide reductions and aggregate developed country emission reductions of at least 80-95 percent by 2050 compared to 1990 level. This call was repeated in February 2011[9]. The implications of this commitment were elaborated by the European Commission in its roadmap to a low-carbon economy published in March 2011[10].

This policy document has profound implications for investments in the energy sector. Under the scenario of 80 percent domestic greenhouse gases emission reduction by 2050[11] it envisages almost full decarbonisation of the power sector by this time (93 to 99 percent CO2 emission reduction). As a result, all fossil fuels based power plants will have to introduce CCS or be closed by the end of this period. Other sectors consuming significant amounts of energy will also have to undergo dramatic reform: residential and services (88-91 percent reduction), industry (83-87 percent reduction) and transport (46-57 percent reduction).

Bringing a 2050 perspective into EU policy puts a new light on EIB lending. The EC estimates that the transition to a low-carbon economy will require an increase in investments equal to EUR 270 billion annually over the next 40 years[12]. Some of these investments require public support in order to be economically viable, e.g from public banks[13]. In this situation it is justified to ask whether we can afford to spend EIB resources on fossil fuels and impede the transformation.

While it is clear that financing the construction of a coal power plant with at least 40 years expected lifetime clashes with these 2050 targets[14], there are sectors where new analytical tools are needed to measure compliance of the investment with this target. A good example is investments in energy efficiency in the residential sector. They need to be thorough enough to guarantee that we are on track to reach the 2050 targets in the residential and services sectors (88 to 91 percent CO2 emission reductions by 2050).

Energy security and market integration

The creation of a well interconnected internal energy market as well as ensuring security of energy supply are EU goals described in Article 194 of the TFEU and often reaffirmed in other documents. The Union tries to achieve them through various measures including obligatory fuel reserves, attempts to coordinate energy policies, energy efficiency improvements cooperation between gas and electricity system operators etc. In the area of infrastructure investment the interpretation of these vague terms[15] has resulted in a list of EU priority energy projects[16]. These electricity, gas and oil projects are designed to complete infrastructure for a common energy market by connecting isolated Member States, e.g. the Baltic States, to a common market as well as removing transmission bottlenecks on the borders. The most visible measure aimed at addressing the supply challenge is gas and oil import infrastructure. Parts of this infrastructure , e.g. elements of the Southern Gas Corridor have been included in the list of priority projects.

If the term energy security is defined in a very broad sense, it may lead to financing of virtually any type of energy project. The examples of EIB financed coal power plants in Slovenia and Poland clearly show this[17]. EU policies give guidance on which infrastructure projects are a priority for the EU, but they fail to assess whether they are in line with EU long term climate goals, sometimes creating contradicting demands towards the EIB.

Cogeneration

The EU specifically supports co-generation, ie. simultaneous generation of heat and electricity in the same installation. Directive 2004/8/EC encourages Member States to support this type of power plant due to their high efficiency and potential for reduction of greenhouse gas emissions.

However, not all investments in co-generation are in line with EU climate change policy, therefore the EIB should develop a selective approach restricting its lending to small-scale cogeneration plants using biomass obtained from sustainable sources.

EIB energy lending outside of the EU

In its energy lending outside of the EU, the EIB as an EU institution is obliged to adhere to the objectives of EU external action set in Article 21 of of the Treaty on European Union. Among others these are 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.

In the second revision of the Cotonou Agreement[18] guiding EU cooperation with the developing countries of Africa, Caribbean and Pacific regions for the first time there is clear recognition of the importance of climate change. Article 20 identifies climate change as one of the areas that should be mainstreamed into all areas of cooperation between the EU and other signatories of the treaty. This commitment should also govern the EIB lending in the regions covered in the agreement.

The Decision of the European Parliament and of the Council from 25 October 2011 on an EU guarantee for the EIB against losses under loans and loan guarantees for projects outside the Union[19] contains clear guidance for EIB energy lending in countries outside of the EU not covered by the Cotonou Agreement. This legally binding document obliges the EIB to develop a strategy for increasing the percentage of projects promoting the reduction of CO2 emissions and phasing out financing projects detrimental to the achievement of Union climate objectives (Article 6). The strategy should be ready by the end of 2012.

This Decision of the Parliament and the Council 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 the developing world into high-carbon energy infrastructure in its energy lending outside of the EU, both in the countries covered by the EU guarantee as well as in the ACP[20] countries.

Resolutions of the European Parliament calling on the EIB to change its energy lending

2007 EIB annual report [the Parliament][21]

- *Urges the EIB to focus its energy lending on energy efficiency, renewable energy and research and development investments in these two areas;*
- *Additionally calls on the EIB to establish and make public a methodology to assess the climate impact of the financed projects and to make public a set of criteria enabling the EIB to refuse projects for their negative impact on climate change;*

2007 Resolution on Trade and Climate Change [the Parliament][22]

- *Calls for the discontinuation of public support, via export credit agencies and public investment banks, for fossil fuel projects and for the redoubling of efforts to increase the transfer of renewable energy and energy efficient technologies;*

2009 EIB annual report from 7 April 2011 [the Parliament][23]

- *Calls on the EIB to bring its operations fully into line with an EU objective of a swift transition to a low-carbon economy and to adopt a plan for the phase-out of fossil fuel lending, including its lending for coal-fired power plants, and for the redoubling of efforts to increase the transfer of renewable-energy and energy-efficient technologies;*

The EIB energy lending policy and Climate Action programme

The European Investment Bank has developed several documents describing its lending policy in the energy sector. These documents guide EIB lending for single projects as well as through financial intermediaries or investment facilities. The most important documents are "Clean energy for Europe: A reinforced EIB contribution", considered to be the EIB's energy lending policy and the Corporate Operational Plans which contain EIB objectives and performance indicators for the following year.

Clean Energy for Europe

This policy[24] was adopted by the Board of Governors in June 2007 and its revision was announced recently. It is not clear, though, when it will start. The policy names five priority lending areas:

- renewable energy sources
- energy efficiency
- research, development and innovation in energy sector;
- security and diversification of internal supply (TEN-E) and
- external energy security and economic development in Neighbouring and Partner Countries.

A summary of these sections follows.

- Renewable energy sources (RES)

The policy states that the binding EU target for 20% share of RES requires a very substantial increase in investment introduces a minimum target of 50 percent of EIB lending to electricity generation for renewable energy sources. The Bank raised the potential financing from 50 percent to 75 percent of the investment value per project for RES projects, mainly on emerging RES technologies. The policy also includes the development of more suitable financial instruments for smaller scale RES investments and use more of structured finance and equity funds. It also noted the need to reinforce project identification in new markets which are less developed in RES projects.

- Energy efficiency (EE)

The policy states that "Increasing energy efficiency is the first and best way to tackle the key energy objectives" and that "energy efficiency considerations are being given top priority and mainstreamed into the preparation of all projects to be financed by the bank". The Bank's approach is that a project must realize a 20 percent reduction in energy used in order to qualify for an EE label, which enables the project to be financed by EIB up to 75 percent of its investment value. The policy also plans a rise in lending for Combined Heat and Power plants especially in New Member States.

The bank sees potential for energy efficiency in buildings (insulation for residential and improved energy management systems for commercial), transport (changing to efficient

modes of transport), electricity production (CHP), electricity distribution and industry. The policy underlines that there are differences among the EU countries and noted that there is a larger potential for energy saving measures in the New Member States. It further notes that most energy efficiency investments are small scale, and to serve those the EIB needs intermediaries. The policy also puts emphasis on Commission-EIB mechanisms like JASPERS, JEREMIE and JESSICA.

- Research, development and innovation in energy

The policy confirms that the EIB will continue to support research and development in the energy sector as well as more risky innovative projects like Carbon Capture and Storage, nuclear and other large infrastructure.

- Security and diversification of internal supply

The bank supports European priority projects including TEN-E, LNG, oil and gas storage and experimental CCS, or other 'clean coal' technology demonstration plants.

The policy introduced criteria restricting bank's lending to coal power plants. In order to be eligible for EIB support new lignite/coal power plants must be CCS-ready and use the best available technology, must replace an old plant and the emissions from the plant must be at least 20 percent lower (per unit of energy used, not overall) than from the plant replaced. Investments in existing coal power plants must be small, cannot lead to a delay in plant replacement, and must contribute to a significant reduction of pollution and an increase in the plant's energy efficiency.

- External energy security and economic development

In its lending outside of the EU the EIB policy claims it assists other countries in improving their access to the internal EU energy market through the development of new EU energy import routes. The document underlines that, "in developing countries priority is given to supporting modern and efficient uses of energy and sustainable energy solutions." The policy announced the establishment of a facility for energy sustainability and security of supply as an enhancement of the profile of EU action against climate change.

Corporate Operational Plans (COP)[25] and the establishment of the EIB Climate Action programme

The bank works in the framework of a rolling three-year operational plan, approved by its Board of Directors and updated every year. Corporate Operational Plans, by reflecting on the current economic and political situation in the European Union, include annual financial objectives and targets for EIB lending, and establish performance indicators and objectives for the EIB's cooperation with other institutions like European Commission or other financial institutions.

In its COP 2007-2009 the EIB recognised energy as a key item in the EU policy agenda following the EU Green paper "European Strategy for Sustainable, Competitive and Secure Energy" and introduced energy as a specific objective in the COP. An overall target for supporting this objective was also been included in the document. Within this objective EIB placed special emphasis on energy TEN projects and generally to projects that contribute to the EU objective of creating a pan-European Energy Community. The next COP confirmed the EIB's strategy from the previous document and established new financial targets for renewable energy in the European Union.

Since 2008 the EIB's response has been focused on responding to the European Commission's call for enhanced EIB support for the energy sector and the fight against climate change in the European Economic Recovery Plan and the Climate and Energy Package both adopted by ECOFIN Council in December 2008.

In response to the Packages, the EIB's Corporate Operational Plan (COP) 2009-2011 reflects proposed measures "including a comprehensive package on energy and climate change including a specific response for the development of a clean transport facility which will include support to the automotive industry."[26] The COP 2009 further explains that the "(...) EIB will provide additional support to investment specifically in the fields of energy efficiency and the use of renewable energy sources,(...), more environmentally-friendly use of fossil fuels, including the development of carbon capture and storage (CCS), TENs and related infrastructure and clean transportation".[27]

In its next COP 2010-2012, the EIB confirmed its commitment made in the previous Plan for

at least 20 percent of energy lending within the EU to support the renewable energy sector and to systematically integrate energy efficiency considerations into the project appraisal process.

Climate Action programme

The EIB started to categorise projects under Climate Action in 2008 when enhanced EIB support for the energy sector and the fight against climate change was requested by the European Commission.

The EIB's Climate Action programme includes financing for projects under several categories including sustainable transport, renewable energy, energy efficiency, research and innovation and other types of projects including forestry, and carbon credit funds which contribute to the reduction of carbon dioxide. According to the EIB, in order to qualify as climate action projects, they have to meet stringent criteria for their contribution to CO2 reduction, energy efficiency goals or sequestration of CO2. Only projects involving the most innovative technologies (e.g. solar, wind, biomass) qualify[28].

In its Statement on Environmental and Social Principles and Standards adopted in 2009, the EIB committed to integrate climate change considerations into the lending policies and practices of the Bank. The document further states that the EIB keeps under continuous review and upgrades its approach to climate change to guide Bank lending and operational practices pertaining to climate change mitigation and adaptation in support of the European Climate Change Programme and the EU Action Plan on Climate Change and Development[29]. This is supposed to be done through a periodical review of bank lending policies in the energy, water, transport, waste and natural resource sectors to make them consistent with EU climate policy. The reality shows however the bank's reluctance to subject its policies to revision and public consultation.

Three years after first agreeing to a revision of its transport policy after a formal complaint was filed by CEE Bankwatch Network against the EIB, in 2011 the bank finally approved a new transport policy.

The COP 2010-2012 introduced also a new Climate Change indicator to report EIB support for climate change mitigation and adaptation. Indicative targets were included for 2010–2012 and assumed that climate action financing would reach 20, 22 and 25 percent of EIB lending respectively in 2010, 2011 and 2012.

EIB energy and climate policies - Weak targets preserving business as usual

The EIB is very cautious about making commitments which would markedly change its lending practices. In 2002 it obliged itself to allocate 15 percent of energy lending for renewables. The current target is only 5 percent higher. For comparison, since 2002 the EU has set for itself targets for greenhouse gases emission reductions in 2020 (20 percent) and 2050 (80-95 percent).

In order to keep up with EU policies the EIB should act faster and take a much more ambitious approach. Otherwise not only will the EIB not contribute to achieving the EU long–term objectives but it will also prevent those objectives from being achieved due to locking the energy sector into long lasting fossil fuel infrastructure.

While the European Commission's roadmap to a low carbon economy clearly states that CO2 emissions reductions measures will have to apply to all the sectors of the economy, the EIB's Climate Action is intended to constitute only up to 25 percent of the bank's portfolio, leaving the remaining three quarters outside of emissions reductions consideration. If the EIB is to play the role of policy-driven bank it must not continue to lag so far behind EU policy developments.

EIB energy lending between 2007 and 2010

CEE Bankwatch Network has undertaken an analysis of the EIB's energy lending in the years 2007-2010. The year 2007 was selected as a starting point of the analysis, because in this year the EIB adopted its first ever energy policy, document entitled Clean Energy for Europe: A reinforced EIB contribution (for more details see Chapter 2 of this report).

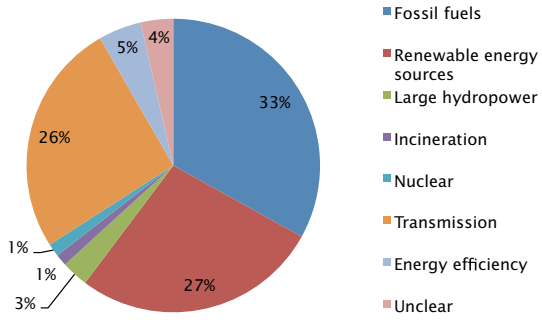
As a basis of this analysis Bankwatch used the list of EIB energy projects obtained from the bank on request. In this report the lending volume for the given year corresponds to the value of loans, for which contracts between the bank and its clients were signed in this year. Bankwatch's categorisation of projects does not fully correspond to the approach taken by the EIB. For details of Bankwatch's methodology and the differences between EIB and Bankwatch approaches see Annex of this report.

Overview of EIB energy lending

The dominant type of EIB loans in the sector was lending to fossil fuels. In the years 2007-2010 this made up 33 percent of the energy portfolio, which corresponds to EUR 16 billion out of 49 billion lent to the whole sector. The second largest volume went to renewable energy (27 percent or 13.4 billion). It was closely followed by loans for electricity transmission infrastructure (26 percent or 12.7 billion). The remaining sum went to large hydro power plants (EUR 1.5 billion), production of fuel for nuclear power plants (EUR 0.7 billion) and waste-to-energy plants (EUR 0.6 billion). Loans worth 1.8 billion could not be classified due to lack of publicly available data.

The graph below presents the evolution of the bank's lending to major types of energy projects. In line with the overall increase of lending in the sector, both lending to renewables and fossil fuels are on the rise. Since 2007, when the EIB adopted its new energy policy, its lending for renewables has risen by 335 percent from EUR 1.7 billion to 5.8 billion. This trajectory resulted in 2010 being the first year when lending for renewables was significantly higher than for fossil fuel projects. At the same time, the amount assigned for fossil fuel projects increased by 178 percent from EUR 2.8 billion to 5 billion. Bankwatch applauds the effort made by the EIB to increase its lending to clean types of energy generation. At the same time we believe that the most socially and environmentally beneficial type of energy investment, energy efficiency – has been largely neglected by the bank. The fact that a mere 5 percent of all energy investments have been spent on real energy efficiency is the largest shortcoming of the bank in the energy sector.

EIB energy lending by category 2007-2010



EIB energy lending 2002 - 2006

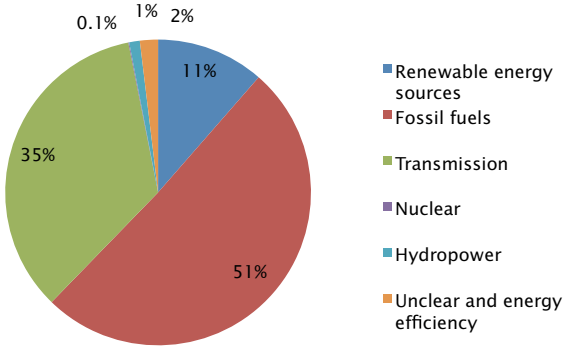
In the years 2002-2006 the EIB energy lending was even more dominated by fossil fuels than at the moment. We can see that between that period and now the EIB has made a significant effort to increase its lending for renewables. At the same time the level of support for energy efficiency measures was at a similarly negligible level as today.[30] Importantly, the relative decrease of the share of fossil fuels in the energy mix (from 51 to 33 percent) has not translated into a fall of this kind of lending in absolute figures.

The second worrying trend is the continuing large-scale support for fossil fuels. It is difficult to imagine a transformation to an energy efficient and renewable energy based economy, if the largest public lender, obliged to foster the policy goals of the EU, has fossil fuels as a significant portion of its energy investments.

Comparing the EIB energy lending before and after the adoption of bank's energy policy shows interesting trends. In recent years the bank has managed to significantly increase its lending to renewables. On the other hand, the relative decline of the share of fossil fuel lending between the periods of 2002-2006 and 2007-2010 did not result in a decrease of the absolute amount of funds spent on climate-damaging projects. It was caused by an overall increase of the bank lending in the energy sector.

Therefore we can conclude that under the current energy policy the bank managed to increase its lending to renewables, but failed

EIB energy lending by category 2002-2006



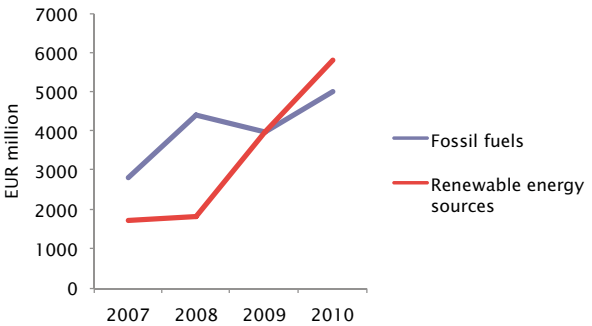
to stop increasing its lending to fossil fuels and to introduce meaningful support for energy efficiency measures.

Investing in new heat and power generation

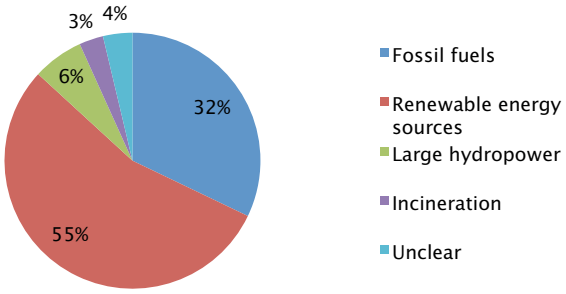
In justifying its lending for fossil fuel projects, the EIB often refers to the EU requirements to finance the pipelines needed for completion of EU-wide gas and oil markets and to the need to providing security of supply for European customers.[31] In order to verify this claim Bankwatch quantified the amount of funds going to new power plants and renewable energy installations, leaving aside gas and oil pipelines, storage facilities and LNG terminals[32].

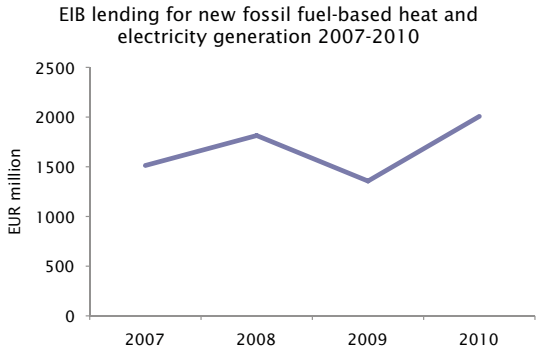
As can be observed in the graph below, between 2007 and 2010 the majority of EIB lending in this sub-sector went for renewable energy generation. At the same time we can observe stable support for fossil fuel-based energy generation in the period analysed. Loans for power plants using coal, gas and oil stayed at a similar level with a slight tendency to increase (from around EUR 1.5 to 2 billion annually). Over the whole period they accounted for an aggregated sum of EUR

EIB lending to renewables and fossil fuels 2007-2010



EIB lending for new heat and electricity generation capacities by category 2007-2010





Sostanj Unit 6

Slovenia plans to build a new 600 MW unit for the Sostanj lignite power plant, which would replace the power plant's existing units 1-4 and possibly 5. The EIB signed the contract for the last tranche of the EUR 550 million loan for the project in 2010, while the European Bank for Reconstruction and Development followed suit with EUR 100 million in 2011.

The project's proponents point to the new unit's increased efficiency, but in fact, this one lignite power plant alone in 2050 will swallow up almost the country's entire carbon budget for all the sectors, if Slovenia wants to follow EU's long term climate commitments. This was not assessed at all by the EIB, which prefers to hope that CCS technology (Carbon Capture and Storage) will soon become commercially viable and be installed at the plant. However, not only is CCS far from being proven to be effective or viable, but a recent analysis by the Bellona Foundation found that the project does not even meet EU legislative requirements for assessing the feasibility of using CCS.

Further problems arose in April year as a report by the Ministry of Economy found that the potential economic benefits from the project had been inflated and as a result the government refused to approve a state guarantee for part of the EIB loan. New calculations have been carried out that somehow managed to make the project appear more profitable, but in October 2011 the Slovene parliament's finance committee still refused to approve a state guarantee.

6.7 billion.

The data contradicts the claim that EIB fossil fuel lending is restricted to the infrastructure needed to complete the internal energy market or to provide additional security of gas and oil supply by building gas and oil pipelines, storage facilities and terminals. In fact as much as 42 percent of the EIB fossil fuel lending has financed a direct increase in CO2 emissions by constructing new coal, oil or gas fired power plants.

Lending for fossil fuels

The EIB's lending for fossil fuels is on the rise. Between 2007 and 2010 it increased by 178 percent from EUR 2.8 billion to 5 billion. It reached a cumulative value of EUR 16 billion during this period.

This type of lending is dominated by loans

Nabucco Pipeline

The Nabucco pipeline project is aimed at bringing natural gas to Europe from the Caspian or Middle East through Turkey, Bulgaria, Romania, Hungary and Austria. The 3900 km long pipeline would be part of the southern gas corridor whose main goal is to lower gas dependency on Russia and to diversify supply routes.

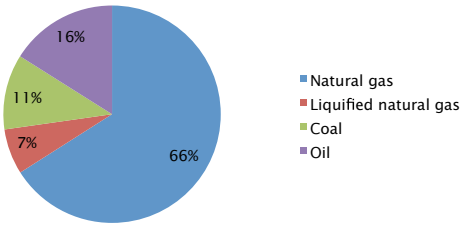
The project, however, does not solve the problem of energy security as gas for the pipeline will probably come from unstaible Caspain Sea region and on the way to Europe will have to cross several conflic zones in the Caucasus and Eastern Turkey. Moreover it would lock Europe into the use of fossil fuels for the next 50 years.

Moreover, it will bring limited public benefits and comes with serious social and environmental concerns. It will affect Europe's Natura 2000 network, other natural parks and agricultural land.

It may ultimately benefit some of the most authoritarian regimes in the world, eg. Turkmenistan, at the expense of their populations. Furthermore if used at its full capacity, Nabucco will result in approximately 60 million tonnes of additional CO2 emissions per year in the EU.

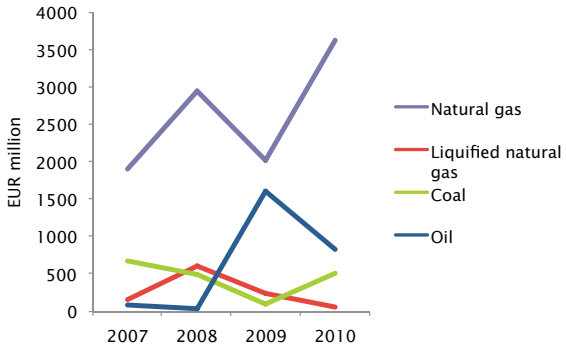
to natural gas. In the period between 2007 and 2010 natural gas projects benefited from EIB loans worth EUR 11.6 billion. 10 percent of this sum was for liquefied natural gas (LNG) terminals, i.e. regasification plants in Europe. This kind of gas project deserves special attention, because of the high life-cycle carbon footprint of LNG, which, when used for electricity generation, in some cases reaches the level of CO2 emissions for coal.[33]

EIB lending for fossil fuels by category 2007-2010



Another worrying trend is the EIB's increasing support for oil refining. In 2009 and 2010 the EIB signed loans worth EUR 1.9 billion supporting refineries in Spain, Italy, Portugal and Greece, thus supporting the EU's dependency on imported oil. In the period from 2002 - 2008 this type of loan was quite rare, on average accounting for EUR 120 million yearly. The EIB is not only increasing its support for refineries, but also expanding the scope of the refining products. The recent loan to Italian company ENI will enable the company to be the European frontrunner in processing the dirtiest type of oil from tar sands (for more see the box to the right).
The criteria restricting the bank's support for coal projects, present in the EIB energy policy from 2007 (for details see Chapter 2 of this report) has not prevented the EIB from financing coal power plants. In the years analysed the EIB loaned EUR 1.8 billion or 11 percent of its fossil fuel lending for coal power plants. This includes support for three large

EIB lending for fossil fuels by category 2007-2010



ENI Innovative Refining Technology

In November 2010 and March 2011 the EIB signed loans worth a total of EUR 435 million for ENI, the Italian oil company, for the "construction and operation of an oil processing unit in Sannazzaro refinery, Northern Italy" The name of the project is: ENI Innovative Refining Technology.

This is a EUR 1 billion project to enlarge one of the largest refineries in Europe, located in the territory of Sannazzaro De Burgoundi in Northern Italy. The existing ENI facility is already refining a large range of oil (from light to heavy) imported from Russia, Asia and Africa. It is located along the Central European Pipeline [CEP] Genoa - Ingolstadt, a 753km pipeline that transports to Switzerland and Germany oil arriving to Sannazzaro both via tanker - through the commercial port of Genoa - and via the overland CPC pipeline from the Caspian region.

The new unit, financed by the EIB, will be located close to the existing plant, in the territory of Ferrera Erbognone. It will specialise in super heavy oil - developing an ENI technology named EST (ENI Slurry Technology), which until 2009 was being experimented with in Taranto. In the description of the project, it is stated that the aim of the new plant will be to take advantage of the "bottom of the barrel" oil and super-heavy oil that in the coming years will have increased importance in the energy supply for the European market. The definition of super-heavy oil includes tar sands, which the plant will be suitable to treat. ENI and its joint ventures are already involved in the development of heavy oil and tar sands, among others in the Orinoco Belt in Venezuela, the largest heavy oil deposit in the world, with oil in place reserves of 1,300 billion barrels , and in the Alberta region in Canada . The company has also been exposed by international civil society groups for potential threats to the environment and human rights of local communities related to its exploration of tar sands in the Congo Basin .

1 000 MW of coal power plants in Poland?

Bielsko Biala CHP located in the south of Poland is a new thermal coal-fired power station. The electric power output is planned to be up to 50 MWe and thermal power output of up to 110 MWt. In October 2011 the EIB signed a loan for up to PLN 300 million (EUR 75.8 million) for financing this investment. This is more than 50 percent of the total expected project cost of PLN 574 million (EUR 156 million).[34]

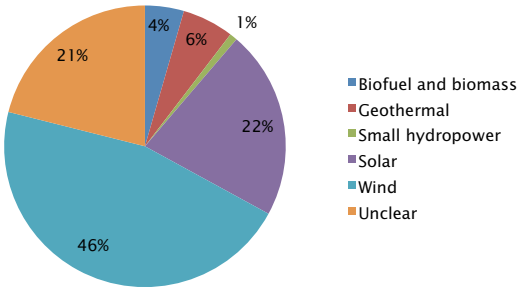
Bearing in mind that any power plant constructed now will be in operation beyond 2050 this investment is in contradiction with the goal of decarbonisation of the energy sector described by the European Commission in its Roadmap for a low-carbon economy.[35] This very recent investment proves that there is a threat that the EIB may finance more of the 11 GW of coal power plants planned in Poland. According to media reports the EIB is already participating in informal talks with Elektrownia Pólnoc Ltd. about a new coal-fired power plant in the north of Poland.[36] The power plant would have a capacity of 2000 megawatts, nearly as much as all renewable energy sources in Poland combined.

power plants - two in Germany and one in Slovenia - as well as several smaller projects.

The EIB and renewables

The share of EIB loans for renewable energy sources in the overall energy lending increased from 24 percent in 2007 to 34 percent in 2010. The dominant type of renewables supported by the bank is wind. It accounts for almost half of lending for renewables in the EIB portfolio. The second is solar energy (both CSP and PV) with a share of 22 percent. As much as 21 percent of lending to RES could not be classified due to lack of publicly available data about the final recipients of the loans provided by the EIB through financial intermediaries and framework loans. This shortcoming may significantly impact the accuracy of Bankwatch data about the share of various types of renewables in the bank's lending (for more about loans through intermediaries see page 19 of this report).

EIB lending to renewables by category 2007-2010

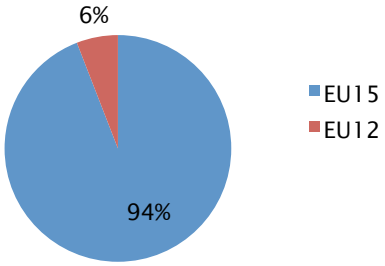


The geographical division of the EIB's lending to renewables is very unevenly distributed between the old member states of the EU and the rest of the world. This problem will be further elaborated in the next sections of this chapter.

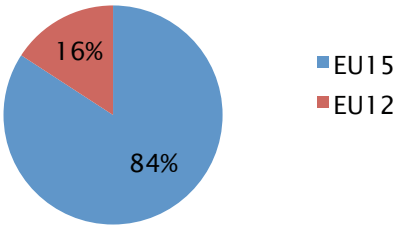
The EIB lending in the EU New Member States

Interesting tendencies can be observed, when examining the geographic distribution of the EIB energy lending. In the overall EIB lending to renewables and energy efficiency in the EU only 6 percent and 16 percent respectively was allocated to projects in the New Member States (EU12) (see charts below).

EIB lending to renewables in the EU by region 2007-2010



EIB lending for energy efficiency in the EU by region 2007-2010

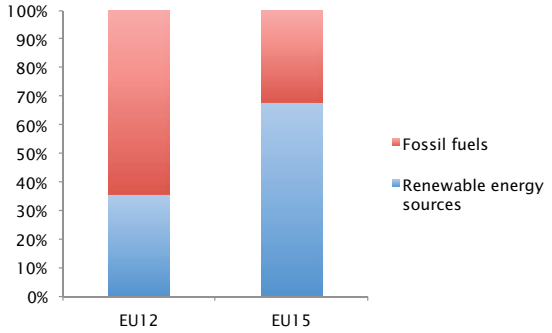


This difference cannot be explained only by the overall smaller volume of lending in this region. The share of renewables in the overall energy lending in the EU 12 is only half that of the EU 15.

Another important measurement of the EIB's approach to the New Member States of the EU is a comparison of its lending for new energy generation based on renewables with that based on fossil fuels (graph below). Also here we can observe a discrepancy between the East and the West. In the EU 15 the majority of EIB lending goes to renewables (64 percent), while in the EU12 the share of renewables in the electricity and heat generation is only half of that (32 percent).

The figures below show that the EIB energy lending in the EU12 has a different character than that in the EU15. The dominance of high-carbon types of energy in the EIB energy portfolio in the region is petrifying the unsustainable energy system in the eastern part of the EU, locking the New Member States into an unsustainable energy future.

EIB lending to new electricity and heat generation in EU12 and EU15 countries 2007-2010



Every gas pipeline and gas or coal power plant constructed now has an operational life-time of at least 40 years. This means that it will either continue polluting beyond 2050 or will have to be closed prematurely – not realising the optimal profit from money invested.

The EIB should recognise that the EU climate targets, including the long-term ones until 2050, apply in the same way to all the Member States of the block. Therefore it should a develop policy-based well-tailored approach to countries where investment opportunities are smaller. This would require a proactive approach in seeking clients and providing technical assistance, as well as closer cooperation with local financial institutions. A regional target for lending to renewables and energy efficiency in the New Member States would give a boost to the search for this kind of solution. EIB should also undertake more decisive action in order to implement its energy policy "Clean energy for Europe" where it announced development of more suitable financial instruments for smaller scale RES investments and the need to reinforce project identification in new markets which are less developed in the RES projects.[37]

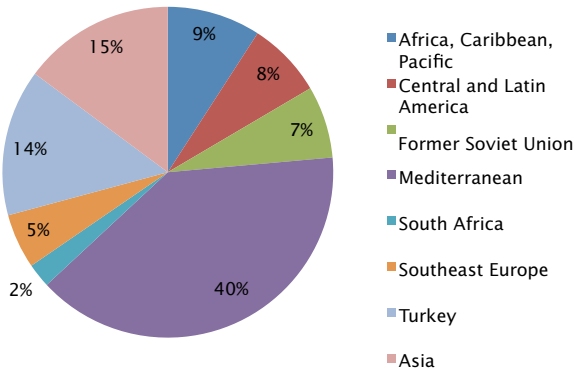
If the EIB is not able to fund projects in line with climate science, it should apply the "no harm" principle and restrict itself from supporting investments contradicting EU ambitions to keep the global temperature rise below 2 degrees Celsius. Otherwise we can be sure that eastern European governments will oppose ambitious climate policies by the EU even more often. The EIB will be one of the actors responsible for this state of affairs.

EIB lending outside of the EU

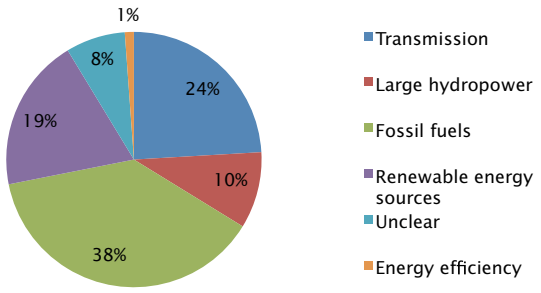
Between 2007 and 2010 the EIB lent more than EUR 7 billion for energy projects outside of the EU.[38] This represents 15 percent of its entire energy portfolio. The main recipient of the EIB funds is the Mediterranean region[39] (excluding Turkey), which received almost 40 percent of loans by volume. The second was Asia with 15 percent, and three quarters of this sum went to China (see below).

The chart at the top of the following page shows that the most supported type of energy was fossil fuels. The share of renewables in the overall energy lending outside the EU was 19 percent, so somewhat higher than in the EU12 (16 percent), but significantly lower than in the EU15 (29 percent).

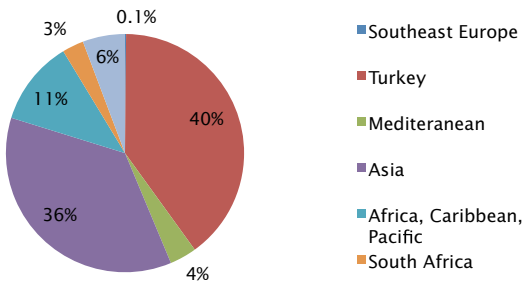
EIB energy lending outside the EU by region 2007-2010



EIB energy lending outside the EU by category 2007-2010



EIB energy lending to renewables by region 2007-2010



According to Bankwatch's calculations the loans for renewable energy projects financed by the EIB outside of the EU between 2007 and 2010 were worth only EUR 1.3 billion. This figure as well as the classification of these projects as environmentally and socially sustainable should be taken with caution.

Many of these loans were provided in the form of framework loans, with no publicly available data about their final use. In some cases these investments could not be classified, because project descriptions mentioned both energy and non-energy projects, e.g. forestry, while the money allocation was not broken down.

Despite these shortcomings one tendency can be easily discerned. Hardly any loans went to the least developed countries of ACP (Africa, Caribbean and Pacific). Out of a mere EUR 158 million, which went to renewables projects in ACP countries as much as 75 percent went to a single geothermal energy project in Kenya.[40]

It seems that the EIB, which outside of the EU works under a development mandate11, is at the moment not well equipped to finance clean energy projects in the least developed countries. Moreover EIB failed to be in line with its own energy policy stating that "in developing countries priority is given to supporting modern and efficient uses of energy and sustainable energy solutions."[41] It shall also be noted that EIB failed to implement its commitment made in Corporate Operational Plan 2008-2010 to give in ACP countries due attention to renewable energy in line with the Bank's overall strategic objectives to increase energy lending and in particular to promote renewable energy through various instruments that are also available to ACP operators.[42]

High voltage transmission lines in Ukraine

In 2008 EIB signed EUR 150 million loan to co-finance the Rivne - Kyiv High Voltage Line Project. The EBRD is also providing a EUR 150 million loan). The transmission line will connect two nuclear power plants (in Rivne and Khmelnytsk) with the Kiev region. The project is supposed to allow Ukraine to "use the generation capacity more economically", which in translation means that the idle capacity at these unsafe old nuclear power plants will have to work at full scale. The project also aims to"enable Ukraine to improve its participation in the European energy markets, in other words enabling the export of nuclear electricity to the EU. The project will rely on the use of dangerous nuclear power at old existing plants and on the construction of new ones. Further development of NPPs will prevent the development of renewable energy sources in Ukraine.

Moreover the transmission line project has raised a number of other environmental concerns including being routed through Urochische Mutvytske landscape reserve of national importance, a lack of consideration of alternative routings and the lack of environmental impact assessment for part of the project.

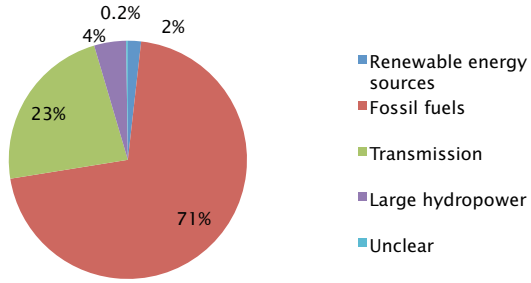
EIB in the pre-revolutionary Mediterranean region

In recent months increased EIB lending has been proposed as one of the main EU responses to the revolutions in North Africa[43]. It cannot be forgotten though that the bank was actively investing in these countries before the undemocratic governments were overthrown and is continuing its business in Egypt while it is being ruled by a military junta.[44]

The nature of the EIB lending in the region is far from sustainable. More than 70 percent of the loans by volume were for large scale gas power plants and pipelines. Its lending for renewables consisted of a single loan of EUR 50 million for a wind park in Egypt. Before the EIB engages in any further energy projects in the region it needs to undertake an analysis of the projects done so far and any planned projects to examine whether it has supported and to avoid supporting those connected with the former regimes. It also needs to tighten up its energy criteria for projects in developing countries to make sure that they truly lead to real, direct benefits for local people at the same time as being in line with the need to reduce greenhouse gases globally.

Support for renewables and energy efficiency through financial intermediaries

EIB energy lending in the Mediterranean region by category 2007-2010



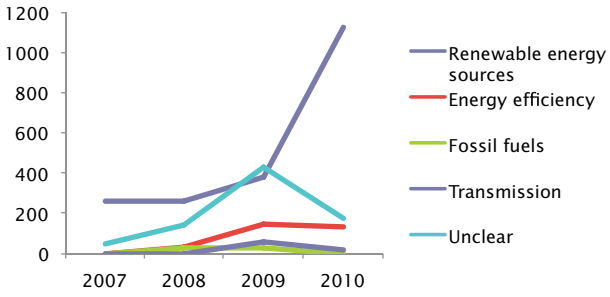
The financing of individual projects is not the only way in which the European Investment Bank (EIB) does its business. The bank has a growing portfolio of lending through so-called financial intermediaries, through which it aims to reach smaller beneficiaries that it is unable to handle itself due to its organizational structure. The lending is usually done though a bank or similar institution, which receives the EIB funds and re-lends them under specific conditions that are embedded in the contract in between the EIB and the intermediary. For example, loans provided to the final beneficiaries can be co-financed by the EIB only up to 50 percent of the project value and certain sectors are blacklisted (such as the arms trade). Furthermore, the EIB increasingly focuses on participation in or investments into private equity funds that subsequently support selected projects. The intermediary lending of the Bank received a significant boost especially in the financial crisis when it was used as one of the tools to provide markets with more liquidity and lift the burden of expensive money from the small and medium enterprises that forms the backbone of Europe's economy.

Most such intermediary lending is not focused and its primary aim is to support either small and medium or mid-cap companies[45] in general. However, the Bank also provides funds with a specific focus in order to support the objectives of the European community, either though so called 'targeted global loans' or by investing into a private equity fund focused on one or more sectors. Areas typically supported through intermediary lending include among others research and development, renewable energy sources or micro-finance.

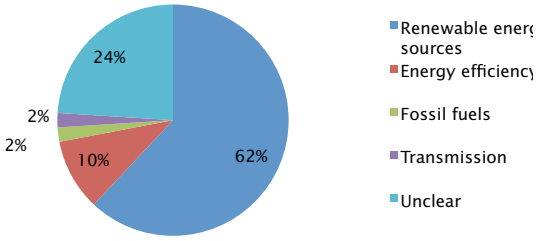
The data clearly show that from 2007 to 2010, the intermediary lending of the bank related to energy grew significantly from EUR 315 million to almost a billion and half. As can be seen at the chart M3, over 60 percentof the total EIB energy lending through financial intermediaries was allocated for the support of renewable energy sources (RES) with a significant increase in the level of lending in 2010 (for developments of lending in various sectors over time, see the chart M1). If we would ignore intermediary lending that can not be assigned to a specific energy sector (24 percent marked as unclear), RES lending clearly dominates over energy efficiency measures (EE), investments for fossil fuels (FF) or the support for transmission grids (transmission). Nevertheless, it is not clear whether the sharp increase in RES lending in 2010 is a temporary measure or if the increased level of lending will be sustained over longer period.

By examining the intermediated energy lending of the EIB in more detail, interesting

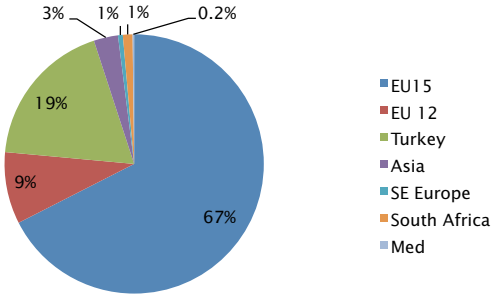
EIB lending through financial intermediaries by sector 2007-2010



EIB energy lending through financial intermediaries by sector 2007-2010



Intermediated energy lending by region 2007-2010



regional patterns emerge. Over 72 percent of the funds directed towards the support of renewable energy sources, which - as we have just seen form the majority of the intermediary energy lending - are channelled into the Old Member States of the European Union, almost 20 percent goes to financial intermediaries operating in Turkey and about 8 percent to the New Member States of the EU (see graphs below).

Turkey, with EUR 402.5 million worth intermediary projects for RES over four years is, in fact, the third largest beneficiary on the level of individual countries, just behind Italy (EUR 575 million) and Germany (EUR 440 million).

With such large regional differences, it is important to remember that the EIB should primarily support the objectives of the European community and thus other factors other than profit and demand by the intermediary institutions should also be considered while deciding on the allocation of funds for various sectors and regions. The The level of support for RES in the New Member States is, for example, surprisingly low with the only larger credit line being awarded to Ceská Sporitelna in the Czech Republic (the EUR 100 million CS Risk Sharing Energy Efficiency GL, 2010) and some other minor projects in the Czech Republic, Poland and in Hungary. When seen in the context of the European target of 20 percent of energy generated from renewable sources by 2020 and the envisaged transformation to an energy efficient society, the New Member States represent a great opportunity that has so far to a large extent been neglected.

It is also clear that one of the challenges that the EIB should address in the near future is the development of suitable products to support smaller energy efficiency projects. EIB support for energy efficiency is more evenly spread over regions and the dominance of funds directed towards the Old Member States is not as strong as in the case of RES, but this may be

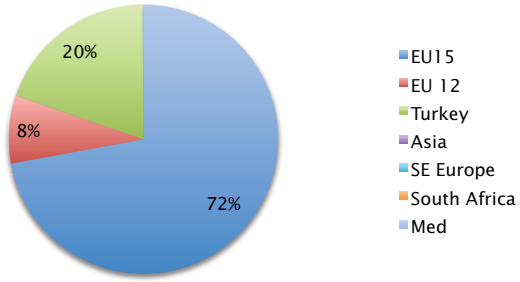
Contradicting its own aims - co-generation gas power plant in Žilina, Slovakia

The EIB's EUR 25 million equity investment in the EnerCap Power Fund is an example of inappropriate use of funds for renewable energy and energy efficiency projects.

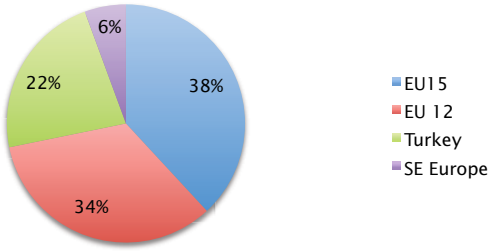
The EnerCap Power Fund was established to finance projects in renewable energy and the energy efficiency sector in Central and Eastern Europe. It invested EUR 56.6 million in a new greenfield cogeneration 40 MW gas-fired power plant in the town of Zilina, in the north of Slovakia. Zilina obtains the majority of its electricity from the nearby hydropower plant while its heat comes from a coal power plant which will stay in use simultaneously with the new gas plant. This new investment is accompanied by a lack of energy strategy for Zilina – the investment is not justified by any identified needs - and a lack of assessment of non-fossil fuel alternative solutions. The project will also contribute to deepening Slovakia's dependence on imported gas.

Furthermore the plant construction has raised local community concerns in regards to its environmental impacts and lack of public consultation, as due to the weak national law the project was not subject to Environmental Impact Assessment..The plant construction will require logging of 1.3 hectares of the nearby forest.

RES intermediated lending by region 2007-2010



Energy efficiency intermediated lending by region 2007-2010



as a result of the generally low level of support for EE overall. In light of the fact that that EIB's energy policy already in 2007 noted the differences among the EU countries and that there was a larger potential for energy saving measures identified in the New Member States (the policy also ancknowledged that most energy efficiency investment are small scale thus are best dealt with though the support of intermediarties)[46], the progess in support of this proiority to date is not convincing.

If properly designed, support for energy efficiency measures can indeed have significant collateral benefits. For example, a study focused on energy renovation of buildings carried out by renowned Czech economist Miroslav Zámecnícк concluded that such endeavours are not only a relatively cheap way of reducing greenhouse gas emissions, but that they also have high positive local multiplication effects. They are usually carried out by local companies and generate significant employment opportunities for local inhabitants[47].

EIB climate action

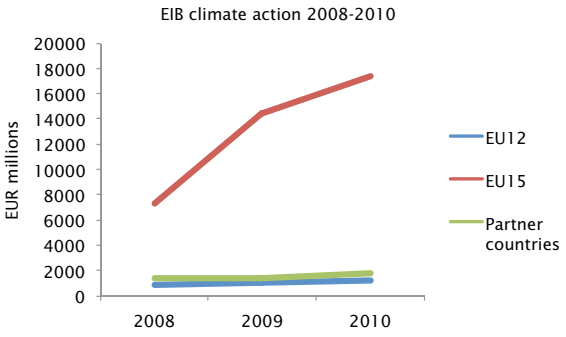
The EIB's Climate Action programme includes financing for projects under several categories including sustainable transport, renewable energy, energy efficiency, research and innovation and other types of projects including forestry, and carbon credit funds which are believed to contribute to the reduction of carbon dioxide. According to the EIB, in order to qualify as climate action projects, they have to meet stringent criteria for their contribution to CO2 reduction, energy efficiency goals or sequestration of CO2. Only projects involving the most innovative technologies (e.g. solar, wind, biomass) qualify.[48]

The EIB started to categorise projects under Climate Action in 2008 when enhanced EIB support for the energy sector and the fight against climate change was requested by European Commission in its European Economic Recovery Plan and the Climate and Energy Package both adopted by ECOFIN Council in December 2008.

The COP 2010-2012 introduced also a new Climate Change indicator to report EIB support for climate change mitigation and adaptation. Indicative targets were included for 2010–2012 and assumed that climate action financing would reach 20, 22 and 25 percent of EIB lending respectively in 2010, 2011 and 2012.

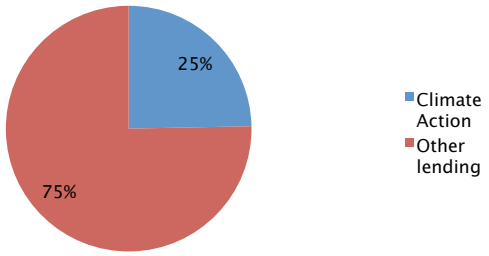
From 2008 the EIB lending to projects under Climate Action has doubled. The graph illustrates the tendency in EIB lending under Climate Action in the European Union with a division into Old and New Member States (EU-15 and EU-12 respectively) and in partner countries outside of the Union.

It should be noted that the EIB managed to reach the targeted support easily and even on average exceed the expected amount by almost 50 percent. On average in the EU and Partner Countries in 2010 EIB financing for Climate Action reached almost 29 percent of EIB overall lending. As the EIB managed to achieve 17 percent already in 2008 even without a target, and knowing the EIB's commitment to put climate change at the heart of its lending, this target was not ambitious enough and seems to have been established at a "safe to reach" level. Much more would be expected from a policy-oriented institution.

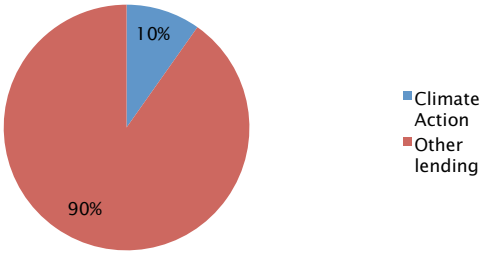


Although the increase in climate action lending is indeed a positive trend it must be noted that there is disproportionately little support for climate change mitigation and adaptation projects the eastern countries in the EU compared to the more developed EU States. This disproportion in the relative part of climate action in the EIB total lending volume is worrying as the needs for investments in energy efficiency, renewable energy and sustainable transport are huge, as is the potential for decreasing greenhouse gases emissions from this region. On the other hand the bank managed to meet its general targets

EIB climate action in the EU 15 in comparison to other lending in these countries 2008-2010



EIB climate action in EU 12 in comparison to other lending in these countries 2008-2010



for lending in the region[49] thus it suggests that it was not efficient enough in pursuing its climate change objectives in some countries.

On average between 2008-2010 climate action constituted 10 percent of EIB lending in New Member States, reaching almost 12 percent in 2010. The EIB is thus merely half way to reaching its target there.

The majority of EIB Climate Action financing is thus taking place in the EU's most developed countries. While the EIB support here is welcome, more emphasis should be put by EIB on ensuring that its funds support EU cohesion in terms of development of renewable energy, sustainable transport initiatives and energy efficiency across the European Community.

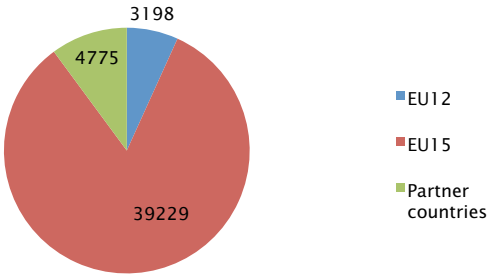
The graphs at right illustrates the regional distribution of EIB climate change financing. The EIB boasted that its support for climate change adaptation and mitigation projects outside the EU reached almost EUR 2 billion in 2010 and pledged to increase its support to sustainable energy projects outside EU in the future.[50] However in 2008 and in 2009 EIB climate change support was heavily biased towards one country only. Investments in Turkey constituted 65 percent of the EIB climate action during that period.

In 2010 Climate Action outside of the EU was also dominated by three G20 members: Russia, China and Turkey, which even without EIB intervention have good access to the capital. Out of EUR 2 billion in 2010 almost 60 percent was invested in those countries.

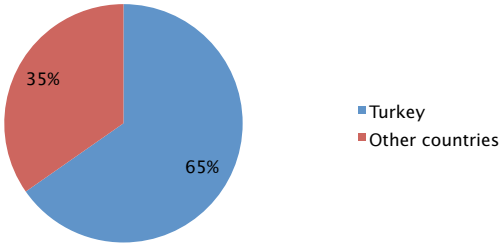
For example in the Mediterranean region, which is now receiving increased EIB attention, over 40 percent of EIB total lending was devoted to supporting the energy sector. However projects which would be eligible for Climate Action constitute only a small margin within the EIB's overall lending in this region: 0.4 percent, 4 percent and 4.6 percent, respectively in 2008, 2009 and 2010. On the other hand support for fossil fuel projects in this region in the respective period reached over EUR 1.6 billion – almost 30 percent of EIB total lending to the region and almost 70 percent of the lending to the energy sector.

This shows that similarly to EIB policy in the EU, support for the fight against climate change in partner countries outside of the EU is rather random, based on requests from borrowers rather than on pro-active EIB policy. It is thus questionable whether EIB follows everywhere its commitment made in its Statement on Environmental and Social Principles and Standards to integrate climate

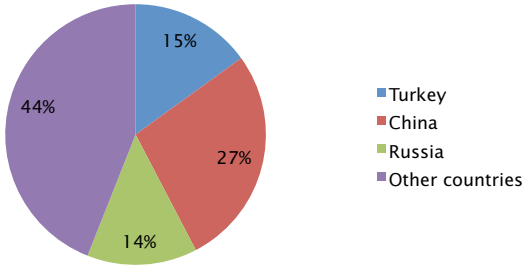
EIB climate action in the EU and partner countries 2008-2010 (EUR million)



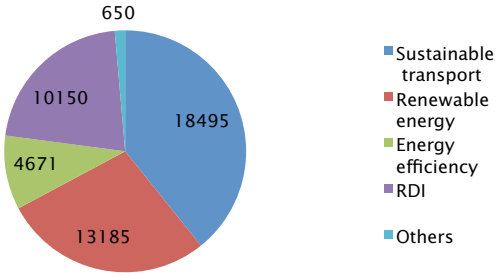
EIB climate change projects outside of the EU in 2008 and 2009



EIB climate action outside of EU 2010



Climate action lending by category 2008-2010 (EUR million)



change considerations into its lending policies and practices.

EIB Climate Action focuses on supporting renewable energy and sustainable transport projects. Energy efficiency unfortunately does not constitute a significant part of this programme. It is worth noting that between 2008 and 2010 over 20 percent of Climate Action financing supported projects in Research & Development and the Innovation sector (RDI). However, it is clear that the biggest beneficiary of EIB RDI support is the automotive industry. From 2008-2010 almost 75 percent of the RDI financing under Climate Action supported this sector. The car industry "consumed" almost 20 percent of EIB climate change funding in 2009 and 2010. These investments from the European Clean Transport Facility were in fact the European equivalent of the US bailout for the American car industry at the time of its breakdown in 2008 with the difference that in Europe it was dressed up in a "green" suit. Thus it cannot be assumed that this lending took place as a result of an analysis that decided it would constitute the most effective use of the money to reduce emissions, but rather as a result of political pressure to save the European car industry. While it is certainly true that European car manufacturers need to bring down the emissions from the cars they manufacture, it is absurd to rely on this as the main plank of decreasing emissions. Any growth in the number of cars is likely to cancel out resulting emissions reductions. EIB has not presented any assessment showing what would be the result of these loans in terms of emissions reduction.

Although the EIB Climate Action programme had rather artificial beginnings it should be welcomed however that the bank for the first time in its history established a concrete financial target (performance indicator) for projects in climate change mitigation and adaptation, which may be considered as an indicator of its integrating climate change consideration into bank lending policies. In its Statement on Environmental and Social Principles and Standards the EIB recognized the need to mitigate and adapt to climate change as one of two greatest environmental challenges of the 21st century. In saying this, however, the targets established are highly inadequate. They also raise concerns about what is financed by the bank with the other 75-80 percent of its vast lending portfolio. It would be naive to assume that it is climate neutral knowing the EIB's significant involvement in developing large infrastructure projects. The EIB should thus not only establish a relative target for lending to climate change adaptation and mitigation projects but also measure the absolute impact of all its projects on the climate and implement a policy toward a rapid decrease of absolute emissions from all the EIB's future projects.

Recommendations

Bearing in mind that energy infrastructure constructed today will often be in use even beyond 2050, Bankwatch recommends the EIB to make forward-looking decisions now and revise its energy policy in line with climate science as well as with the Europe 2020 Strategy, EU 2050 objectives and Roadmaps. In order to make a clear commitment for mobilizing its resources for support for low-carbon development in Europe and outside, the EIB needs to:

- Immediately cease support for the most carbon intensive types of energy generation, starting from coal.
- Develop and implement a plan to phase out lending for other fossil fuels
- The EIB should prioritise energy efficiency as the most important area of intervention.
- It must continue increasing its support for renewables, especially decentralized small-scale ones.
- In cases where there is a shortage of viable energy efficiency or new renewable energy projects, the EIB should apply the "no harm" principle and refrain from financing climate-damaging and unsustainable energy projects. A lack of viable renewables or energy efficiency projects cannot be an excuse for continuing to finance fossil fuels.
- Mainstream climate change considerations into its lending policies through establishing more ambitious targets for its Climate Action - at least 50 percent of its lending in 2015.
- EIB should mainstream climate change consideration into its lending policies through establishing more ambitious target for its Climate Action to reach in 2015 at least 50% of its lending.
- EIB should increase significantly its efficiency in pursuing its climate change objectives in New Member States and outside of the EU and ensure that its Climate Action target is also met in these regions.

In the EU New Member States and outside of the EU

- The EIB should introduce regional targets for financing renewables and energy efficiency in order to avoid the continuation of uneven distribution of clean energy lending.
- The EIB should develop targeted instruments and policies, including technical assistance support, in order to overcome current situation, where the share of clean energy lending in these countries is substantially lower than in the EU 15. These instruments should be focused on supporting smaller scale renewable energy investments.
- The EIB should further reinforce project identification in New Member States and outside the Union which are less developed in the RES and energy efficiency projects.
- The EIB should undertake decisive actions to ensure that its Climate Action program represents at least the same share of EIB operations in New Member States and outside Union as it represents in more developed EU states

In developing countries

If the EIB is to continue its energy lending outside of the EU, it should:

- Finance only projects, whose underlying goal is poverty eradication and to

ensure access to energy for the project stakeholders (the population of the relevant country). Furthermore EIB projects should contribute to increased democracy through enhancing public participation in its decision-making process

- Finance only those clients, who have committed to observe environmental and social standards not weaker than those in the EU. The integration of environmental considerations into the project appraisal process should be on the same level as in the EU, without exceptions
- Develop a strategy for increasing financial support for projects significantly contributing to reduction of CO2 emissions and for phasing out financing for projects detrimental to climate as stipulated in the Council and Parliament Decision No 1080/2011/EU of 25 October 2011

Financing for renewables and energy efficiency via financial intermediaries

- The EIB should develop better financial mechanisms to support energy efficiency projects (in housing, in public buildings and in the industry sector). As many of these projects are by nature relatively small, the sector is likely to be the most effectively supported by balanced combinations of interventions of national governments and accessible loan opportunities such as well designed credit lines.
- Credit lines should be managed by local financial intermediaries, which understand local needs much better than transnational players. This would provide an opportunity for the development of locally-owned banking sectors, less endangered by capital flight than global banks.
- The EIB should pro-actively seek opportunities to support RES in New Member States (including research and development in this sector). Both its money and its expertise can help Member States to progress faster in the reduction of greenhouse gases and in securing energy sources unaffected by possible geopolitical developments.
- To properly evaluate the achievements of its operations, the EIB needs to develop better reporting and evaluation schemes with regards to financial intermediary lending. It should also pro-actively publicise more detailed information about the countries, sectors and individual projects it supports through financial intermediaries.

End notes

1. CEE Bankwatch Network's own calculations. See the methodology for these calculations in Annex 1
2. According to Bankwatch's calculations, the proportion of energy lending in the EIB's total portfolio between 2007 and 2010 increased from over 15 percent to over 24 percent. For the EIB's own figures look at: http://www.eib.org/attachments/general/reports/st2010en.pdf
3. EC communication: "A Roadmap for moving to a competitive low carbon economy in 2050, March 2011, COM(2011) 112 final
4. According to the EC investments in electricity and gas networks worth EUR 200 billion are needed until 2020. Half of it is at risk of not being delivered by the market alone. COM(2011) 665
5. Article 208 of the Treaty on the Functioning of the European Union.
6. Decision No 1080/2011/EU of the European Parliament and of the Council of 25 October 2011 granting an EU guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Union and repealing Decision No 633/2009/EC
7. CEE Bankwatch Network: Change the lending, not the climate, November 2009, http://bankwatch.org/documents/changing_the_climate.pdf
8. EC communications: Renewable Energy: Progressing towards the 2020 target, Brussels, January.2011 COM(2011) 31 final; Energy Efficiency Plan 2011, Brussels, March 2011, COM(2011) 109 final. "Greenhouse gas emission trends and projections in Europe 2011, European Environmental Agency Report No 4/2011.
9. European Council conclusions, October 2009 and February 2011.
10. EC communication: "A Roadmap for moving to a competitive low carbon economy in 2050, March 2011, COM(2011) 112 final.
11. Additional reductions may come from offsets.
12. EC communication: "A Roadmap for moving to a competitive low carbon economy in 2050, March 2011, COM(2011) 112 final.
13. According to EC investments in electricity and gas networks worth EUR 200 billion are needed until 2020. Half of it is at risk of not being delivered by market alone. COM(2011) 665
14. Even if CCS ever becomes economically viable it is very unlikely that it will be technically capable of capturing all the CO2 from the plant, especially the one retrofitted with CCS.
15. Critical analysis of the term "energy security" may be found in Counter Balance submission: Public consultation on the external dimension of the EU energy policy, Counter Balance March 2011.http://www.counterbalance-eib.org/?p=982
16. Trans-European energy networks (Decision No 1364/2006/EC). It is planned to be replaced by a new regulation on trans-European energy networks COM(2011) 658 final.
17. "The use of coal from national reserves should contribute to increase security of energy supply, both in terms of available volumes, due to lower import dependency, and in terms of prices, due to lower volatility". This is the EIB description of the investment in the coal power plant in the south of Poland. Investment replaces similar coal-fired plant. In the country where more than 90% of electricity is produced from coal, it is hard to notice how this project will decrease the import dependency or improve diversification of energy sources. . http://www.eib.org/projects/pipeline/2009/20090549.htm
18. http://ec.europa.eu/europeaid/where/acp/overview/cotonou-agreement/index_en.htm
19. Decision No 1080/2011/EU.
20. African, Caribbean and Pacific countries
21. European Parliament, resolution from 7th April 2011: EIB and EBRD annual report for 2007.
22. European Parliament, resolution from 25th March 2009: EIB and EBRD annual report for 2007.
23. European Parliament, resolution from 29 November 2007 on trade and climate change.
24. http://www.eib.org/attachments/clean_energy_for_europe.pdf
25. http://www.eib.org/about/publications/operational-plan-2011-2013.htm
26. European Investment Bank, Corporate Operational Plan 2009-2011, Approved on 16

December 2008, page 3
27. European Investment Bank, Corporate Operational Plan 2009-2011, Approved on 16 December 2008, page 4
28. http://www.eib.org/about/press/2011/2011-021-eib-delivers-record-lending-for-climate-action-in-2010.htm
29. Statement on Environmental and Social Principles and Standards, 2009, page 5
30. Based on the data gathered for the preparation of the study Change the lending, not the climate, Bankwatch 2009, http://bankwatch.org/documents/changing_the_climate.pdf. There are slight changes in the methodology of categorisation of the data between the two pieces of research therefore the data obtained is not fully comparable.
31. The argument on security of supply also serves the justification of some investments outside of the EU, therefore the calculations in this sub-chapter were based on the data for loans to the whole world.
32. Not all the gas and oil transportation and storage infrastructure financed by the EIB is part of TEN-E networks. Therefore, if we had examined in this section all the EIB investments going beyond the list of EU priority projects, the amount spent on fossil fuels would have been higher.
33. Jaramillo P, Griffin WM, Matthews HS., Comparative life-cycle air emissions of coal, domestic natural gas, LNG, and SNG for electricity generation, Environmental Science & Technology. 2007 Sep 1;41(17):6290-6.
34. http://www.eib.org/projects/pipeline/2009/20090549.htm
35. EC communication: "A Roadmap for moving to a competitive low carbon economy in 2050, March 2011, COM(2011) 112 final.
36. PAP (Polish Press Agency) on 16th September 2010: Board Member of Elektrownia Północ Ltd - Karol Pawlak – stated that talks on investment financing are being held with both the EIB and EBRD.
37. "Clean Energy for Europe: A reinforced EIB contribution", page 2
38. In this section lending to the EFTA countries was added to the sum for the EU.
39. By the Mediterranean region we understand here Morocco, Algeria, Tunisia, Egypt and Syria
40. Article 208 of the Treaty on the Functioning of the European Union. See also the report by the Counter Balance coalition from February 2010: Corporate welfare and development deceptions. Why the European Investment Bank is failing to deliver outside the EU.
41. "Clean energy for Europe: A reinforced EIB contribution", page 4
42. European Investment Bank, Corporate Operational Plan 2008-2010, page 19
43. Arab civil society organisations expressed strong reservations about this step. An open letter signed by 67 Arab NGOs can be found here: http://www.counterbalance-eib.org/wp-content/uploads/2011/06/Arab-CSO-statement-on-G8.pd
44. European public banks must disengage with Egypt's military junta, Bankwatch press release 22.11.2011. http://bankwatch.org/news-media/for-journalists/press-releases/european-public-banks-must-disengage-egypts-military-junta
45. Companies with fewer than 250 employees are considered to be small and the upper limit for the mid-cap category is 2999 employees.
46. "Clean energy for Europe: A reinforced EIB contribution", page 12
47. The study 'Duvody pro zateplování domu' desetitisíce pracovních míst v Cesku' can be found at http://hnutiduha.cz/uploads/media/zateplovani_zamecnik_studie.pdf
48. http://www.eib.org/about/press/2011/2011-021-eib-delivers-record-lending-for-climate-action-in-2010.htm
49. EIB Corporate Operational Plans between 2008-2010, target "Signatures targeting Convergence regions in EU 27 Countries"
50. http://www.eib.org/about/press/2011/2011-021-eib-delivers-record-lending-for-climate-action-in-2010.htm

Annex 1 - methodology

For the purpose of this analysis, the EIB's databases of energy projects received from the bank on request as well as the databases of the EIB's projects available publicly on the bank webpage were used to compile Bankwatch's own database of EIB energy projects signed between 2007 and 2010.

In a number of cases the project description does not provide sufficient information to fully understand the impacts and type of the project. Thus in order to categorise projects, other sources of information, like environmental impact assessments and project promoters' Internet pages were used.

In the case of the EIB's investments through financial intermediaries (banks and various investment funds, including carbon funds) there is no publicly available information on what the Bank's money was used for. CEE Bankwatch Network relied on the information provided in the EIB's energy database and assumed that the information there is accurate.

All projects were categorized according to Bankwatch's own methodology for energy projects which is presented below, thus differences appear between EIB and Bankwatch categorisation. We would like to highlight below the major differences between EIB and Bankwatch categorisation.

In the case of electricity transmission projects, although they may be classified as energy efficiency (EE) projects by the EIB, Bankwatch categorises them as "Transmission" projects as these projects often involve the construction of new lines or the extension of existing ones. Only if an energy efficiency component is identified separately under such projects Bankwatch categorises this component as energy efficiency.

If a project causes increased overall energy use despite an energy efficiency component (according to the EIB's categorisation), its energy efficiency component is categorised in the same way as the main component (for example "Fossil Fuel" - FF). If the EE project (according to the EIB's categorisation) leads to the increased use of fossil fuel through an increase in the capacity of the installation it is also not categorised as an EE project. A similar approach is applied to investments in the extraction of fossil fuels. EE projects in the exploration of fossil fuels are classified as FF, if they lead to an increase of he exploration rate per year or extension of the mine (drilling) to new resources or extension of the lifetime of the field or mine.

In addition, any EE component (according to the EIB's categorisation) in the construction of a new fossil fuel fired power plant is categorised as FF. CEE Bankwatch Network does not classify greenfield electricity and heat power plants (co-generation plants) as energy efficiency projects but depending on the energy source used they are classified under renewable energy category (RES) or as FF projects. In case biomass is co-fired with fossil fuels in one power plant, the project is classified as FF.

In the case of waste-to-energy projects, CEE Bankwatch Network does not consider waste incineration as a renewable energy source as it primarily consists of burning non-renewable substances. Bankwatch

categorises as a renewable energy source biogas produced by waste disposal facilities however such categorization only refers to those components which are directly involved in energy production thus such components like “waste landfills” or “waste sorting lines” are excluded from the calculations.

Under renewable energy sources (RES), Bankwatch categorises only those projects which comply with Bankwatch’s sustainability criteria for RES (see below).

I. Boundaries of energy sector in CEE Bankwatch Network research

Investments in energy sector are operations related to:

- Heat and electricity generation: thermal power plants, renewables, large hydro, nuclear power plants, waste incineration with energy recovery
- Energy storage, including pumped storage plants
- Fossil fuel extraction
- Electricity transmission lines
- Fossil fuel transportation and storage: pipelines, LNG terminals, gas and oil storage
- Production of fuels: refineries, biofuel refineries, uranium enrichment facilities, biogas production
- Production of equipment for energy generation: wind turbines, solar panels, gas and oil equipment
- Energy efficiency projects in the energy sector
- Carbon funds
- Rehabilitation and improvements in energy projects
- Equity investments in energy companies
- Projects in research and development in the sectors above.

II. Division of energy projects into categories and subcategories

Categories

- Renewable Energy Sources (RES), Energy Efficiency (EE), Fossil Fuel (FF), Large Hydro (LH), Other Unsustainable Energy (OUE), Transmission, Unclear
-

Subcategories

- RES: wind, solar, biomass, biogas, biofuel, geothermal, hydro, unclear
- EE
- FF: gas, oil, coal, LNG
- Large Hydro: construction; upgrade and rehabilitation
- Other Unsustainable Energy: Incineration with energy recovery, nuclear, unsustainable renewables

III. Additional heat or electricity generation

By investments in additional heat and electricity generation we mean all investments in generation of additional (new) capacity, e.g. construction of thermal power plants (TPPs), CHPs, wind turbines, PVs, CSPs, NPPs. Rehabilitations of hydro power plants, TPPs and NPPs are also classified if there is an increase of nominal capacity of the installation.

IV. Bankwatch conditions determining categorization of projects

Fossil fuels (FF):

Oil, gas, LNG, coal: extraction, storage, transportation infrastructure and combustion, refineries, research

LNG installations are categorised separately due to the much higher life-cycle climate impacts of the natural gas transported in this form than that transported by pipelines.

Transmission lines, if they are clearly associated with a fossil fuel generation project and will mainly serve to export electricity from this project.

Environmental and safety improvements in FF projects are classified as FF.

Large hydro (LH)

A project is categorised as large hydro (LH) if it concerns the construction, rehabilitation and upgrade of the hydro power plants of a capacity larger than 10 MW. Investments in the environmental and safety improvements in these plants are also classified as large hydro. The aforementioned criteria also refer to PSP (pumped and storage plants).

Transmission

Construction of electricity transmission and distribution projects, unless they are clearly associated with a given electricity generation project and will mainly serve to export electricity from this project.

If the description of the project clearly differentiates the two components – energy efficiency and construction - each component is categorized separately.

Energy efficiency

By investments in energy efficiency we mean:

- Projects which lead to an increase in the degree in which the installation or process transforms the energy supplied in one form to energy in another form (for example energy from the sun to energy in a form of electricity), provided that this does not lead to an increase of lifetime or capacity of fossil fuel power plants.
- Projects aimed at increasing the ratio of the obtained results, services or goods to the energy input (energy used to obtain those results, services or goods) (examples: industrial energy efficiency - producing more shoes with the same or less energy; buildings - eg. insulation or better lighting)
- Investments in improved measurement of energy use, e.g. electricity meters and associated infrastructure and software.

Other Dirty Energy

Investments in

1. Unsustainable renewables

Renewables, which do not meet Bankwatch criteria for sustainable renewables, excluding LHPP, which are categorised separately in the LHPP category.

2. Incineration

Projects involving electricity and heat generation from waste (including paper, residues and other type of waste) incineration. It includes landfills and waste sorting plants, if they are clearly associated with the incinerator, for example used for selecting fuel for the incineration or providing space for residual ash disposal.

3. Nuclear

New reactors;

Environmental and safety upgrades leading to lifetime extension or capacity increase

Transmission lines, if they are clearly associated with nuclear reactors and will mainly serve to export electricity from them.

V. Bankwatch criteria for sustainable renewable energy

All renewables:

- Must be part of a renewable energy development plan that is subject to a Strategic Environmental Assessment Procedure
- Must be in line with River Basin Plans and protected area management plans
- Must not be in (planned) Natura2000 sites without a compatibility assessment and a cumulative impact assessment.

1. Biogas: by-products from the biogas plants should be used as a fertiliser only after independent certification (for example in case of biogas plants which use wastes from slaughter and meat processing factories as an input material).

2. Solar, if siting avoids valuable agricultural land and the potential impacts on wildlife have been addressed.

3. Wind, if

- the project is not developed in a protected natural area;
- the project is not developed along a bird migration route;
- the project does not impact bat populations (besides collision and habitat disturbance, the issue of ultrasound emissions is to be dealt with);
- wind farm projects will be based on biodiversity baseline studies and will undergo an environmental impact assessment, as any large industrial project
- wind projects will have post-commissioning monitoring programmes to ensure there is no negative impact on communities and wildlife;
- the project will use state-of-the-art equipment, in order to minimise noise, vibration and electric and magnetic fields; old, used installations will not receive funding from IFIs;
- off-shore wind projects will be based on a thorough analysis of potential impact on both birds and mammals, including their habitats and feeding areas and sources.

4. Water, if the project meets international

standards, including the recommendations of the World Commission on Dams and:

- the project is under 10 MW;
- the project does not involve dam, reservoir and resettlement;
- the project does not affect the water flow regime and wildlife circulation;
- the project does not affect biodiversity, nor people's water needs;
- the project does not affect possible investments to rehabilitate and increase efficiency of existing units in the project area;
- the project is not situated a the protected area (included in IUCN category IV);
- small hydro plants (below 10 MW) with derivation channels if the water intake is relatively small and does not negatively affect biodiversity and livelihoods downstream. not more than 30-50% of rivers in a catchment area are developed with small hydropower (exact boundary to be determined by experts).

5. Geothermal, if

- the project uses injects the water back to the ground, there aren't discharges that could thermally pollute river or lake systems;
- equipment is in place to eliminate harmful emissions of greenhouse gases, hydrogen sulphide and other gases in the thermal water.

6. Biomass and biofuel, if:

- the design and layout of plantations promotes the protection, restoration and conservation of natural forests, and does not increase pressures on natural forests or nature protected areas;
- a biomass origin certification system is in place;
- the plantations do not have a negative impact on natural habitats;
- the crops exclude genetically modified organisms;
- native species are preferred over exotic species in the establishment of plantations and the restoration of degraded ecosystems. Exotic species, which shall be used only when their performance is greater than that of native species, shall be carefully monitored to detect unusual mortality, disease, or insect outbreaks and adverse ecological impacts;
- the project brings about improvements in soil structure, fertility and biological activity;
- the project does not involve the use of harmful fertilizers and insecticides;
- the project does not bring about adverse impacts on water availability and quality, or impact on river and lake systems for that matter;
- no species is planted on a large scale until local trials and/or experience have shown that they are ecologically well-adapted to the site, are not invasive, and do not have significant negative ecological impacts on other ecosystems;
- the project does not raise land ownership, use or access issues;
- the project is not a threat to food security on any level (energy plantations drastically reducing/ eliminating food crops in the area);
- the project does not involve an increase in GHG emissions;
- the biomass resource is of local origin (no imports of biomass from the Global South);
- the project must not create social conflicts;
- biomass production must have a substantial positive energy balance (energy output versus input).
- exploitation of energy biomass from production forests has to be in accordance with rules of sustainable forestry (all lopping and 30 cubic metres per hectare should not be removed from the forest)
- By-products from the biogas plants should be used as a fertiliser only after independent certification (for example in case of biogas plants which use wastes from slaughter and meat processing factories as an input material).

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