

NGO Recommendations on draft EIB Energy Lending Policy

August 2019

Key elements to be maintained:

- *The commitment to end support to fossil fuels*
- *The prioritization of energy efficiency and renewable energy*
- *The Energy Transition Package*
- *Financial intermediaries covered by the policy*

Areas of concern which require improvement:

- *A credible criteria (Emissions Performance Standard) for renewable energy*
- *Ensure the commitment on fossil fuels is fully consistent*
- *Ensure no backdoor for climate dangerous gas*
- *End the EIB's support to fossil fuels-heavy companies*
- *Reinforcing the Energy Efficiency First Principle*
- *Ensure that the Bank does not finance nuclear projects*

Overall assessment:

The proposed draft policy is an improvement on the current Energy Lending Criteria adopted in 2013¹.

The four priorities as spelled out (1/ Unlocking energy efficiency 2/ Decarbonising energy supply 3/ Supporting innovative technologies and new types of energy infrastructure 4/ securing the enabling infrastructure) are likely to reinforce the EIB's alignment with the objectives of the Paris Agreement, and better contribute to the overall goal of carbon neutrality the latest by 2050 in the European Union.

The draft updates the policy by integrating a number of key developments in global and European climate policy since 2013 including the Paris Agreement, the recognition that net-zero emissions are necessary to stay within 1.5 degrees, the 'energy efficiency

¹ <https://www.eib.org/en/publications/eib-energy-lending-criteria>

first principle', recognition of the role of distributed and community energy in the energy mix and the necessity to support those negatively affected by the transition.

The commitment '*not to support upstream oil or gas production, coal mining, infrastructure dedicated to coal, oil and natural gas (networks, liquefied natural gas terminals, storage), and power generation or heat production from fossil-fuel sources (coal, gas, oil, peat)*', to '*no longer originate projects after the adoption of this policy*' and to '*stop lending to fossil-fuel energy projects by the end of 2020*' is a significant step forward by the Bank in responding to the climate reality and urgency, and the most important step taken by the EIB on the climate front since it established its Emissions Performance Standard (EPS) back in 2013 to rule out direct support to coal power plants.

With the upcoming reviews of the bank's Climate Strategy in 2020, and of its future Transport Policy, this would constitute a key step in mainstreaming climate considerations at the EIB.

Key elements to be maintained:

- The commitment to **end support to fossil fuels**, as proposed by the Bank, needs, at a minimum, to be maintained and should not be delayed any further.
- The prioritization of **energy efficiency and renewable energy** (with a positive reference to energy communities and microgrids) is very welcome, so no change in the 4 priorities is requested at this stage.
- The **Energy Transition Package**, as proposed by the Bank, is an important step forward for the EIB to reinforce its action in support of a just transition.
- The draft ELP explicitly states that it will cover all EIB activities in the energy sector, including for intermediated operations via **financial intermediaries**. This is an important provision that needs to be retained in the policy and operationalized through the review of its climate strategy and its future standard on financial intermediaries. It will enable the Bank to ensure coherence in supporting its objectives by exerting more control on the intermediaries (commercial banks, investment funds) that it finances in order to ensure they do not finance fossil fuels projects through the back door.

Areas of concern which require improvement:

- A credible criteria (Emissions Performance Standard) for renewable energy

The proposal put forward by the EIB suggests to replace the current Emissions Performance Standard by a greenhouse gas emissions eligibility criterion for relevant renewable technologies (e.g. large hydro, biomass or geothermal) at a level of 250 gCo2 per kWhe. We recommend lowering this threshold to 100 gCO2 per kWhe - in line with the criteria proposed by the EU Technical Expert Group on sustainable

finance for the EU sustainable taxonomy². It should be noted that such a threshold is extremely high for renewable energy³, that is typically below 100 gCO₂ per kWh, and if such a threshold was reached by a given renewable project, it would then have zero added value climate-wise compared to efficient gas plants, hence such a project should be turned down by the EIB.

- Ensure the commitment on fossil fuels is fully consistent:

The Bank provides an exception to its no fossil fuel policy for “*high-efficiency gas-fired co/tri-generation meeting the Bank’s criteria, including resulting in greenhouse gas emissions of less than 250 gCO₂ per kWh and efficient gas boilers included within building renovation programmes*”. In our view, this requirement for gas CHP plants is too weak. As elaborated above, a threshold of 250gCo₂ per kWh is much too high to be consistent with a clean energy system and to be in line with the Paris Agreement. This policy would open the door for support to conventional fossil gas plants – clearly inconsistent with a fossil free policy. Already gas CHP plants are achieving a lower level of emissions. This means that if the EIB is to support only high efficient projects consistent with a net-zero pathway, it should set this EPS level at a sufficiently low level, such as 100 gCO₂ per kWh. Indeed, under the taxonomy a threshold of 100gCO₂/kWh for the whole electricity sector is proposed, and such level should be adopted as a baseline by the EIB⁴.

- Ensure no backdoor for climate dangerous gas:

The draft energy policy proposes to ‘*support the production of low-carbon gases, including hydrogen, biogas and synthetic gas, as well as renewable liquid fuels*’ *The Bank will also ‘support projects that are designed to connect networks to new sources of production of low-carbon gases’ and in addition, ‘the Bank will also support investments designed to adapt existing infrastructure towards a credible and imminent high blend of low-carbon gases’.*

Furthermore both the climate benefit and economic potential of these gases is uncertain and there remains no agreed definition or criteria for such gases. Considerable risks remain from the use of many of these gases e.g. methane leakage, high energy requirements in production. At this stage, the Bank proposes no mechanism to ensure that these risks are recognized and mitigated. Therefore, the bank should only support the production of gases where the climate benefit is

² See the relevant technical report here:

https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-taxonomy_en.pdf

³ For example the [2018 Hydropower Status Report](#) from the International Hydropower Association finds that the global median GHG emission intensity of hydropower reservoirs was 18.5 gCO₂-eq/kWh (or 13.5 times below the EPS threshold proposed by the EIB), with a huge majority of reservoirs (84%) emitting less than 100 gCO₂-eq/kWh.

⁴ In its 2016 World Energy Outlook, the International Energy Agency stated that the world needs to reach an average of 100 g CO₂/kWh for new power generation over the next two decades.

comparable to renewable energy, and where the risks are addressed. The policy should make it clear that projects will not be supported where this is not the case.

- End the EIB's support to fossil fuels-heavy companies

The draft Energy Lending Policy does not contain any provision to end the EIB's support to fossil fuels heavy companies (for example coal developers). This is a real gap in terms of corporate social responsibility for the EIB. In line with the commitment to ensure that fossil fuel projects are not supported by financial intermediaries the Bank should ensure that this commitment also applies to financed companies. The Bank should ensure that none of its financing is used to support – even indirectly – new fossil fuel infrastructure.

Therefore, we recommend that the EIB makes financing conditional on company-level decarbonisation plans aligned with the Paris Agreement prior to loan approval. The Bank should stop any support for high carbon companies which do not rapidly adopt and implement 1.5°C compliant strategies to align with the Paris Agreement. And the EIB should commit not to support companies which plan to or are currently building new fossil fuel power plant(s), expanding or retrofitting fossil fuel plants; developing fossil fuel infrastructure or creating/expanding mines and extraction sites.

- Reinforcing the Energy Efficiency First Principle

The Bank plans to take account of the 'energy efficiency first' principle by considering the impacts of energy efficiency on future demand and the energy security contribution of energy efficiency. Putting the principle into practise comprehensively however also requires to build in a standard test whether a supply side investment could be replaced by a demand side (reduction/flexibility) investment.

- Ensure that the Bank does not finance nuclear projects

The Bank should exclude any support for nuclear energy if it is to prevent diversion of capital from better performing (more GHG-reduction per Euro invested) alternatives.