Decreasing dependency on fossil fuels

The role of EU public banks in energy financing in Central and Eastern Europe

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Monitoring IFIs and EU funds in Central and Eastern Europe (CEE)

CEE Bankwatch Network is an international NGO with member organisations currently from 11 countries across the CEE and CIS region. Its mission is to prevent the environmentally and socially harmful impacts of international financial institutions and EU funding, and to promote alternative solutions and public participation.
Europe’s Energy Import Dependency

- A high proportion of the fossil fuels used in the EU27 in 2010 were imported from outside the EU: 53.8% of its total gross inland energy consumption.

- Net import accounted for 91% of oil, 62% of gas and 39% of solid fuels gross inland consumptions.

- The EU’s dependence on imports of fossil fuels (gas, solid fuels and oil) from non-EU has remained relatively stable 2005-2010.

- In 2011 net imports of fossil fuels to the EU amounted to EUR 388 billion, more than 3% of EU GDP (2010: EUR 355 billion).

- EU’s trade balance deficit 2011: EUR 185 billion

Source: DG Energy / Eurostat (May 2011); EEA 2013 (ENER026)
Europe’s Energy Infrastructure

- Europe’s energy system is outdated
- Substantial investments in power production capacity, infrastructure, buildings and transportation within the next decade.
- These investment decisions will shape the structure of the energy system until 2050 and beyond.

IEA 2012: “Our 450 Scenario (...) finds that almost four-fifths of the CO2 emissions allowable by 2035 are already locked-in by existing power plants, factories, buildings, etc. If stringent new action is not forthcoming by 2017, the energy-related infrastructure then in place will generate all the CO2 emissions allowed up to 2035, leaving no room for additional power plants, factories and other infrastructure unless they are zero-carbon.”
“Progress towards clean energy has stalled”, IEA says*

*IEA April 2013:

- "despite a boom in renewable energy over the last decade, the average unit of energy produced today is basically as dirty as it was 20 years ago”

- “We need a rapid expansion in low-carbon energy technologies if we are to avoid a potentially catastrophic warming of the planet, but we must also accelerate the shift away from dirtier fossil fuels."

- Coal use expanded particularly in Europe where coal’s share of the power generation mix increased at the expense of natural gas.

- true cost of energy must be reflected in consumer prices, through carbon pricing and the phase-out of fossil-fuel subsidies.
Coal’s health bill reaches €43 billion a year*

Annual health costs associated with coal power generation per country in millions of euros (2009 data)

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- Air pollution from burning fossil fuels blamed for premature deaths and illnesses
- Moving away from fossil fuels would boost health by significantly reducing chronic lung disease and some heart conditions
- Recent upturn in the use of coal makes awareness of health costs more urgent

HEAL 2013; The unpaid health bill: How coal power plants make us sick
A case for subsidizing fossil fuel infrastructure?

- In 2009 during the G20 summit in Pittsburgh world leaders called for the **phasing out of fossil fuels subsidies**

- IEA: phasing out fossil fuel subsidies by 2020 would **reduce growth** in energy demand by 4.1 percent and **cut growth in CO2 emissions** by 1.7 gigatonnes.

- The 2012 EP report on the low-carbon roadmap is explicitly asking for an **end to fossil fuels subsidies**.

- The 2007 EP resolution on trade and climate change 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.
International Monetary Fund 2013: “Energy subsidies (for coal and gas) have wide-ranging economic consequences ... subsidies aggravate fiscal imbalances, crowd-out priority public spending, and depress private investment, including in the energy sector. Subsidies also distort resource allocation by encouraging excessive energy consumption, artificially promoting capital-intensive industries, reducing incentives for investment in renewable energy and energy efficiency, and accelerating the depletion of natural resources. (....) Even future generations are affected through the damaging effects of increased energy consumption on global warming.”

Reduction of subsidies for fossil fuel projects, including loans from public banks, is one of the most urgent tasks!
What role of public banks in financing energy infrastructure?

The European Investment Bank (EIB) is one of the world’s largest public lender and the investment arm of the European Union. It is also a major financier of energy projects, in and outside of Europe, having lent around 62 billion euros to the energy sector since 2007. EIB lending is supposed to further EU objectives, including the EU’s climate objectives on decarbonising the European economy by 2050.

The European Bank for Reconstruction and Development (EBRD) is a public institution, owned by the European Union and other countries around the world (including the US, Canada, and Japan). The EBRD was established in 1991 to promote democracy and free market economies in Central and Eastern Europe and countries of the former Soviet Union, and more recently its mandate has been expanded to include post-Arab Spring countries. With a lending portfolio of about nine billion euros per year, the EBRD is a much smaller lender than the EIB, but in many of its countries of operation it is one of the largest foreign investors and more important than the EIB.

www.bankwatch.org
2007-2011: 62 billion euros to the energy sector; a third of this amount \(\textbf{around 19 billion}\) went to fossil fuels; and almost \(\textbf{2 billion euros went to coal}\). 18.5 billion euros went to renewables in the same period (note that the amount is less than for fossil fuels) and another 5 billion euros to energy efficiency. Energy efficiency remains marginal in the EIB’s lending despite being the most rational way to reduce emissions in our economies and a well-documented source of job creation.
EIB energy lending 2007-2010/region

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

EIB energy lending outside the EU by category 2007-2010

- Transmission
- Large hydropower
- Fossil fuels
- Renewable energy sources
- Unclear
- Energy efficiency

Bankwatch 2012; Carbon rising, EIB energy lending 2007-2010
In summer this 2013, the EIB will publish its new energy policy:

- This new document should favour projects involving demand-side energy efficiency and renewable energy sources.
  - such projects will help reduce EU dependency on imported hydrocarbons, contribute to sustainability, and deliver initiatives that are fully cost-competitive, especially when factoring in social and environmental externalities.

- Crucially the EIB should end its support for coal and lignite power plants, including for their replacement with new coal and lignite-based technology and retrofitting.

- Stop supporting energy generation from gas
  - This is a ‘mature’ technology that does not need public financial support.
EBRD energy lending

- 2006-2011: 6.7 billion euros lent for energy projects
- 48 percent of which went to fossil fuels.
- EBRD increased its coal lending from 60 million euros to 262 million euros.
- 11 percent of the bank’s energy lending went to new renewables.
- 13 percent of the energy lending went to power and energy sector efficiency.

Some examples of EBRD coal projects:
- Belchatow II in Poland, which received 125 million euros from the EBRD, will emit 5.5 million tonnes of CO2 per year for the next 40 years
- The Sostanj 6 lignite plant in Slovenia, which received 100 million euros from the EBRD, will make it nearly impossible for Slovenia to meet its 2050 EU emissions reduction targets.
- The Turceni lignite plant in Romania should have stopped operations in 2015 as per EU legislation, but the EBRD contributed 150 million euros to modernise the plant, enabling it to emit CO2 for another 15 years.
- The EBRD is considering a loan of 400 million euros for the 750 MW Kolubara B lignite plant in Serbia, and it has also recently expressed interest in financing a new 600 MW lignite plant near Pristina, Kosovo.
In June the bank is expected to publish a draft of its new energy policy

- EBRD should see the imperative of halting coal lending.
- EU member states and their representatives on the EBRD’s board must press the bank to do better by providing more lending for demand-side energy efficiency and sustainable renewables.
EIB and EBRD energy lending - in the past and in the future

- Both banks regularly finance fossil fuel projects, including coal. Over the past five years, roughly a third of EIB loans for energy went to fossil fuels and between 2006 and 2011, almost half of EBRD loans went to fossil fuels.

- While both banks have been making significant efforts to clean up their lending in the last few years, climate science calls for much more than the slow, gradual progress the EIB and the EBRD seem to be willing to make. While the banks are now following markets, they need to be driving them.

- This year both the EIB and the EBRD are reviewing their energy lending policies: the EBRD is expected to present a first draft in June, while the EIB will approve its new policy during the summer.

- Both institutions update their energy policies only once every five to six years, making this year an extraordinary opportunity: if lending to coal and other fossil fuels is not excluded from the policies this year, it means that projects harming the climate will continue to receive public subsidies well into the next decade, in blatant contradiction with both climate science and the EU objective to decarbonise its economy by 2050.
THANK YOU FOR YOUR ATTENTION!

Low Carbon Living
Annex I: Ten reasons why Europe’s public banks should not finance coal

1. It is necessary to avoid an increase of more than two degrees in temperatures globally.
According to calculations by the International Energy Agency (IEA), for a two-degree scenario, all energy investments after 2017 will need to be in zero-carbon utilities.

2. Coal is the worst culprit of greenhouse gas emissions and other pollution, much worse than gas power, and obviously much worse than all renewables and the more efficient use of electricity.

3. Coal carries a health bill of 43 billion euros annually in Europe alone. Coal power generation in Poland is associated with the highest health impacts and costs, estimated at over 8 billion euros per year. Romania and Germany both rank second with more than 6 billion euros in health costs each. Adding such external costs conservatively doubles to triples the price of electricity from coal per kilowatt hour generated, making renewables much more competitive.

4. Fossil fuels are not economically-relevant in the long term. Even without accounting for the huge external costs (health, air and water pollution, deforestation), the prices of fossil fuels will continue to rise, while renewable energy costs will decline. Furthermore, renewable energy can ensure energy independence by utilising locally-available, inexhaustible resources. And finally, it is a sector that is fast growing and will become the norm in the long term due to increased fossil fuel prices and climate action targets, so constructing coal and other fossil fuels infrastructure delays a country’s transition and forces them to be uncompetitive. There is no need for public banks to invest in coal projects.

5. Fossil fuel industries are generally ‘mature’ and should not receive public support. Fossil fuels are already heavily subsidised - 523 billion dollars in 2011 alone according to the IEA. State aid for hard coal mining alone was estimated at 2.9 billion euros annually in Europe. Several countries in Europe are subsidising coal production, and others may subsidise coal consumption even though there is evidence that coal subsidies are not needed to ensure the security of supply.

6. There is a broad consensus that public institutions should not support fossil fuels. From the OECD to the European Parliament, high-level reports and public statements have for years called for an end to public funding for fossil fuels and redirecting these funds into sustainable alternatives.

7. As public banks, the EIB and the EBRD have the responsibility to support decisive and cost-effective action against climate change. The benefits of strong, early action on climate change outweigh the costs, and the more we wait, the more costly it becomes to take action. The Stern Review, a well-known report outlining the measures that the world should take to avoid runaway climate change, noted that failure to take action could cost the global economy 5-20 percent of global GDP each year. The EIB as a house bank of the EU is additionally mandated to further EU objectives, including the decarbonisation of the European economy by 2050. The potential for renewable energy and energy efficiency development is immense, and it could be much better tapped if the two European banks were not each wasting at least a third of their energy lending on fossil fuels.

8. Investments in alternatives to fossil fuels and in energy efficiency bring important economic benefits. According to the IEA, the growth in global energy demand by 2035 could be halved through the implementation of economically-beneficial energy efficiency measures. The IEA also says that introducing these measures could boost economic growth globally by a staggering 18 trillion dollars12, making demand-side energy efficiency measures the one area that should become an investment priority for the EIB and the EBRD. Renewable energy and energy efficiency technologies are those where innovation and price reductions happen fastest and thus economies based on innovation should favour these innovative industries by supporting them with public money, rather than capital-intensive, large-scale fossil fuel generation technologies of the past.

9. Economic recovery potential of renewable energy and energy saving. Renewables and energy efficiency also tend to be more labour-intensive than fossil fuels, so the shift to a clean energy model will have a positive impact on employment, with measures such as energy efficiency retrofits offering a way to create jobs in Europe. Construction jobs for wind power, solar projects or better insulation can be distributed so as to provide jobs when and where they are most needed. There are jobs for both highly-qualified and less-qualified workers who now have a hard time finding work.

10. Renewables have proven their potential and are poised to handle the energy transformation. In 2012 wind power produced more than 200 billion and solar power almost 70 billion kilowatt-hours in Europe. Efficiency is by far the cheapest way to help meet demand, and it is happening now.
Annex II: **WTO ANALYTICAL INDEX: SUBSIDIES AND COUNTERVAILING MEASURES**

Agreement on Subsidies and Countervailing Measures

[http://www.wto.org/english/res_e/booksp_e/analytic_index_e/subsidies_01_e.htm#article1](http://www.wto.org/english/res_e/booksp_e/analytic_index_e/subsidies_01_e.htm#article1)

II. Article 1

A. Text of Article 1

Article 1: Definition of a Subsidy

1.1 For the purpose of this Agreement, a subsidy shall be deemed to exist if:

(a) (1) there is a financial contribution by a government or any public body within the territory of a Member (referred to in this Agreement as “government”), i.e. where:

(i) a government practice involves a direct transfer of funds (e.g. grants, loans, and equity infusion), potential direct transfers of funds or liabilities (e.g. loan guarantees);

(ii) government revenue that is otherwise due is foregone or not collected (e.g. fiscal incentives such as tax credits)(1);

(iii) a government provides goods or services other than general infrastructure, or purchases goods;

(iv) a government makes payments to a funding mechanism, or entrusts or directs a private body to carry out one or more of the type of functions illustrated in (i) to (iii) above which would normally be vested in the government and the practice, in no real sense, differs from practices normally followed by governments;

or

(a) (2) there is any form of income or price support in the sense of Article XVI of GATT 1994;

and

(b) a benefit is thereby conferred.