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# WWF recommendations on the Draft EIB Energy Lending Policy

This briefing provides analysis and recommendations on the Draft EIB Energy Lending Policy (hereafter “the EIB Draft”) that was published by the Bank end July 2019.

WWF applauds several commitments of the Bank, most notably the phase out of fossil fuel support by end 2020 (with exemptions), the integration of the Energy Efficiency First principle coupled with a new building renovation initiative, and the Energy Transition Package.

However, the policy contains several loopholes: WWF issues the following eight priority recommendations for further improvements to the EIB Draft:

# Priorities for improving the EIB Draft

- Tighten the exemption criteria for fossil fuel financing.
- Set a stronger Emissions Performance Standard (EPS) at a level of 100 g CO<sub>2</sub>/kWh.
- End EIB corporate financing for utilities and oil & gas companies that don't commit to Paris alignment.
- Ensure that climate-dangerous non-fossil gases are excluded from the next Energy Lending Policy.
- Energy efficiency: The EIB should set up a standard test to establish whether a supply-side investment could be replaced by a demand-side investment (ie reduction/flexibility).
- Tighten EIB criteria for bioenergy: the easiest and safest approach is to limit the scope of potential support exclusively to fast-decaying wastes and residues with no other uses (excluding stumps and stemwood) and not support first generation crop-based biofuels and biogas nor coal to biomass conversion.
- Tighten EIB approach for hydropower: notably, the EIB should not support new hydropower projects of any size in Europe - including the Balkans and the Eastern Neighbourhood region - and should instead fully refocus on retrofitting or dismantling existing hydro.
- Accordingly, commit to update the EIB climate strategy in 2020, including its climate spending target.

This briefing is structured in four parts that according to WWF are the key elements to reflect in the EIB Draft:

1. Fossil fuels
2. Energy efficiency
3. Alignment of the EIB portfolio with the IPCC 1.5°C scenario
4. Renewable energy.

This follows the structure of the initial WWF recommendations on the EIB Energy Lending Policy, which were issued in May 2019 (after WWF answered the EIB public consultation in March 2019).

**As a cross-cutting issue, WWF supports the very positive, explicit commitment by the EIB to apply the Energy Lending Policy to all EIB activities, including through financial intermediaries:** ‘13. The energy lending policy covers all EIB activity in the energy sector – namely financial support, advisory services and technical assistance, regardless of the channel of support. In other words, this policy applies not only to direct investment loans but also to all intermediated operations of the Bank, including those carried out through commercial banks and investment funds’, (p. 6).

# 1. FOSSIL FUELS

## Analysis of the EIB Draft

**WWF applauds the EIB’s commitment to end any financing of fossil fuel infrastructure: this is a major step forward.** By doing so, the EIB takes the steps necessary to meet its explicit commitment to aligning its activities in the energy sector with the Paris Agreement in a science-based way.

Furthermore, the EIB rightly notes that future gas investments will decline significantly: “*investments in new gas infrastructure decline sharply in all scenarios. While natural gas continues to be used in the EU, its consumption is expected to decline by 20% from today’s level by 2030 and by 70 to 85% by 2050. According to the International Energy Agency’s Sustainable Development Scenario, consistent with the goals of the Paris Agreement, investments in gas transmission and distribution networks represent around 2% of total EU investment needs over the two decades to 2040. These investments are needed primarily to maintain the gas network, with higher levels required in eastern Member States to alleviate existing bottlenecks.*” (paragraph 22 p.10).

It also rightly states that switching from oil or coal to natural gas (which may reduce emissions, but only in the short term) is ‘*very likely to take place without EIB financing*’ (p.15) – hence **the EIB makes the relevant and necessary choice to refocus on zero-carbon options that represent ‘a greater investment challenge’ (p.15) and bring much more added value.**

**It is also positive that the EIB Draft explicitly integrates the ‘just transition’ issue, setting up an Energy Transition Package for countries and regions transitioning away from fossil fuels:** ‘*Solidarity is required to ensure that potentially vulnerable groups or regions are supported. The Bank will therefore establish an Energy Transition Package to provide extra support to those Member States or regions with a more challenging transition path. (...) As an exception to its general rule, the Bank will consider financing up to 75% of the eligible project cost*’ (p.3-4, and paragraphs 23 to 25 p.15-16). The EIB rightly mentions ‘coal and carbon-intensive regions’ (p.16) in that perspective.

**However, there remain several loopholes in the EIB Draft that should be removed:** this will ensure that the commitment to removing fossil fuels from the EIB's operations is fully implemented. WWF identified eight issues where the EIB Draft can be improved: they are described below with concrete recommendations.

## 1. Tighten the exemption criteria for fossil fuel financing

The EIB pledges to phase out its own lending to fossil fuel projects and to extend this to intermediated operations via financial intermediaries, which is a major step forward. However, it sets **two exemptions for power and heat generation:**

- *'high-efficiency gas-fired co/tri-generation meeting the Bank's criteria, including resulting in greenhouse gas emissions of less than 250 gCO<sub>2</sub> per kWh, and*
- *efficient gas boilers included within building renovation programmes'* (footnote 8 p.15; also in Annex II p.33).

Importantly, the EIB add among the criteria *'the need to meet an economic test based on a comparison with relevant low-carbon alternatives'* (p.15).

In addition, it sets criteria for **three types of energy infrastructure** in Annex IV (p.38):

*'The Bank is able to consider supporting the following types of projects:*

- *All electricity transmission and distribution infrastructure, with the exception of direct connection of generating capacity based on coal and lignite;*
- *In the case of gas infrastructure,*
  - a. connection to new sources of low-carbon gases*
  - b. adaptation of existing infrastructure towards a credible, imminent use of a high blend of low-carbon gases*
- *District heating and cooling infrastructure'. The EIB clarifies in Annex IV p.39 'The Bank will support the rehabilitation or extension of existing networks, or construction of new networks if the project will not result in any generation of heat from combustion of additional coal, peat, oil or non-organic waste'.*

**Each of these five points raises specific concerns:**

- High-efficiency gas-fired co/tri-generation: see the next section '2. Set a stronger Emissions Performance Standard (EPS)'.
- Efficient gas boilers: the definition of 'efficient' remains unclear.
- Electricity transmission and distribution infrastructure: direct connection of generating capacity based on gas and oil are not excluded.
- Gas infrastructure: see the next section '5. Ensure that climate-dangerous non-fossil gases are excluded from the next Energy Lending Policy'.
- District heating and cooling infrastructure': projects resulting in generation of heat from combustion of additional gas is not excluded.

### WWF recommendations

- The EIB should more clearly define what it means by 'efficient' boilers.
- In electricity transmission and distribution infrastructure, the EIB should exclude direct connection of generating capacity based on gas and oil.
- In district heating and cooling infrastructure, the EIB should exclude projects resulting in generation of heat from combustion of additional gas.

## 2. Set a stronger Emissions Performance Standard (EPS)

The EIB sets a new EPS of 250 gCO<sub>2</sub>/kWh as a threshold for its investments in both fossil and renewable energy sources. In particular, it states its support for *'high-efficiency gas-fired co/tri-generation meeting the Bank's criteria, including resulting in greenhouse gas emissions of less than 250 gCO<sub>2</sub> per kWh and efficient gas boilers included within building renovation programmes.'* (p. 33).

While this is a step forward compared to the current, obsolete EPS of 550 gCO<sub>2</sub>/kWh, **the new EPS is concerning as it leaves the EIB out of step with the forthcoming EU Taxonomy for Sustainable Finance, which sets an EPS of 100 gCO<sub>2</sub>/kWh.** The latter is the result of the EC's most up-to-date technical work on climate mitigation by the EC Technical Expert Group on Sustainable Finance, in which the EIB is highly involved. There is a strong argument on the grounds of i) best practice and ii) consistency amongst EU policies that the EIB should reduce its own EPS to 100 gCO<sub>2</sub>/kWh, as recommended by the EC Technical Expert Group on Sustainable Finance.

It should also be noted, in terms of best practice, that **the most efficient Combined Cycle Gas Turbines with combined heat and power (cogeneration) were already reaching 230 gCO<sub>2</sub>/kWh in 2016** (Kiel plant, Germany, supported by the EIB). The threshold should therefore be well below this level for the post-2020 period. More worryingly, the threshold of 250g Co<sub>2</sub> per kWh is not consistent with a clean energy system and not in line with the Paris Agreement. This policy would open the door to support for conventional fossil gas plants – which is inconsistent with a fossil-free policy.

**For renewable energy, an EPS of 250 gCO<sub>2</sub>/kWh is extremely and unreasonably high: if a renewable energy project were emitting at that level it would have zero added value for the climate compared to the most efficient fossil fuel plants. This is inconceivable.** It should be noted that renewable energy sources have already essentially descended under the 100 gCO<sub>2</sub>/kWh threshold, and many operate well below 50 gCO<sub>2</sub>/kWh. 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 gCO<sub>2</sub>-eq/kWh<sup>1</sup> (or **13.5 times below the EPS threshold proposed by the EIB**), with a vast majority of reservoirs (84%) emitting less than 100 gCO<sub>2</sub>-eq/kWh.

The EIB clarifies in Annex II that this extremely high EPS could be relevant especially for “geothermal, large-scale hydro or biomass” (p.31). This is problematic, however: geothermal is not widely used, so it is not clear why the EPS should be set so high to cover a relatively niche energy source. Furthermore, large hydropower and biomass projects are widely criticized as damaging biodiversity. **WWF opposes such a high EPS for these technologies as it could a) nullify their climate benefits compared to fossil fuels and b) support projects that are intensely damaging to biodiversity.** In short, these projects would have a very poor, if not negative, cost/benefit ratio.

The EIB should therefore align its EPS with the climate science-based EPS proposed for the forthcoming EU taxonomy: 100 g CO<sub>2</sub>/kWh.

### WWF recommendations

- **The EIB should set its new EPS level at 100 g CO<sub>2</sub>/kWh** consistently with the latest climate science, IEA analysis and recommendations by the Technical Expert Group on the taxonomy, of which the EIB is a member. The EPS should gradually decline to zero by 2040/2050.

<sup>1</sup> <https://www.hydropower.org/publications/2018-hydropower-status-report>

### 3. End fossil fuel support by early 2020 not early 2021

There appears to be a contradiction between the EIB's Draft Introduction, where great focus is given to the economic system's misalignment with the Paris Agreement and the urgency of increasing this alignment quickly, and the EIB's decision to postpone the implementation of its fossil-free commitment by one year after the Energy Lending Policy is approved.

The next EIB Energy Lending Policy will enter into force on the 1<sup>st</sup> of January 2020. The EIB's Draft Policy provides no justification for the EIB's decision to postpone the implementation of the fossil-free commitment by one year (ie until the 1<sup>st</sup> of January 2021). On the contrary, climate science makes clear that climate action is extremely urgent. The EIB should therefore amend its timeline for its specific fossil-free commitment.

#### WWF recommendations

- **The EIB should remove the specific timeline for its fossil-free commitment so that it enters into force on the 1<sup>st</sup> of January 2020 like all other commitments in the new Energy Lending Policy.**

### 4. End EIB corporate financing for utilities and oil & gas companies that don't commit to Paris alignment

The EIB pledges to phase out its own lending to fossil fuel projects. However, quite importantly, **it does not make clear whether it will stop supporting companies which themselves invest in fossil fuels.**

This could result in the EIB's funding, indirectly, companies which are heavily reliant on fossil fuels. It could therefore indirectly fund projects aimed at fossil fuel exploration, production and distribution. This is a real gap in terms of corporate social responsibility for the EIB, and potentially a major one in volume, given the amounts of corporate lending by the Bank.

**Furthermore, the EIB does not explicitly commit to asking for decarbonisation plans from its corporate clients.** WWF recommends that the EIB make its financing conditional on time-bound, company-level decarbonisation plans aligned with the Paris Agreement and based on climate-science-based targets. These should be set prior to loan approval. Furthermore, it should withhold financing for high-carbon companies which do not rapidly adopt and implement 1.5°C-compliant strategies.

**Finally, the EIB should commit not to support companies which have fossil fuel expansion plans,** ie which plan to or are currently building new fossil fuel power plant(s), expanding or retrofitting fossil fuel plant(s), developing fossil fuel infrastructure, creating/expanding mines and/or extraction sites, or buying existing fossil fuel assets. All these activities either contribute to developing new fossil fuel infrastructure that is extremely likely inconsistent with a 1.5°C pathway, or they slow down the necessary closure of many existing fossil fuel assets.

**Such commitments are critical components of corporate engagement which are already widely practiced by private financial institutions and have proven their effectiveness: as a public bank, the EIB should lead these market precedents, not lag behind them.** It would be a crucial addition to the EIB's pledge to align its operations with the Paris Agreement if it made a public commitment to request these transition plans from its clients.

## WWF recommendations

- **The EIB should immediately stop any support to coal utilities that plan or build coal power, mining or infrastructure expansion** – either through new assets or by buying/retrofitting existing assets.<sup>2</sup>
- **The EIB should make support to utilities and oil & gas companies<sup>3</sup> conditional on the following corporate commitments:**
  - **Commit to a climate science-based target<sup>4</sup> and a time-bound 1.5°C transition plan** articulating the gradual closure of existing fossil fuel assets, ending for coal in 2030 in the EU/OECD and 2040 elsewhere<sup>5</sup>, and for oil&gas in 2040 in the EU/OECD and 2050 elsewhere<sup>6</sup>;
  - **Deliver climate-related financial reporting** in alignment with the recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD)<sup>7</sup>.
- The above points should explicitly apply to both the EIB’s direct operations and operations through **financial intermediaries**.

## 5. Ensure that climate-dangerous non-fossil gases are excluded from the next Energy Lending Policy

The EIB Draft proposes two types of support for ‘low carbon gases’:

- ‘support the production of low-carbon gases, including hydrogen, biogas and synthetic gas, as well as renewable liquid fuels’ (p. 22);
- ‘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.’ (p. 24).

WWF has several major concerns on this issue:

- The EIB does not define what ‘low carbon gases’ are exactly. There are very different types of gaseous energy carriers, only some of which are zero/low carbon. For WWF, **only ‘green hydrogen’ (from 100% renewable power via electrolysis) should be considered by the Bank**. Any gaseous carrier that relies on fossil fuels, such as ‘blue hydrogen’ from fossil gas with CCS, is too risky for the climate and should be avoided.

<sup>2</sup>A list of coal plant developers can be found here: <https://coalexit.org/database>.

<sup>3</sup> The minimum, as a first step, should be to focus on utilities having coal expansion plans or utilities having more than 10% of annual power production from coal. Indeed, the leading public and private financial are already using a threshold of 10% (e.g. Caisse des Dépôts). To find out which utilities meet these criteria, the Global Coal Exit List (<https://coalexit.org/>) is an open-source database that lists almost 2000 coal companies (775 parent companies and 1178 subsidiaries or joint ventures) and systematically provides the share of power production (or capacity) from coal. It is also forward-looking: it identifies 225 companies that are planning to expand coal mining and 282 companies that are planning new coal plants. See **Annex 1 page 50** for more details.

This approach on corporate finance in the energy sector is valid for any high-carbon company whatever sector. Through its Energy Lending Policy the EIB should start with fossil fuel companies and utilities in the energy sector and broaden the scope afterwards.

<sup>4</sup> Such a climate science-based target should be built on forward looking climate-scenario analysis, using a 1.5°C climate scenario. WWF recommends the sectoral decarbonisation tool, developed by Ecofys for the Science-Based Target Initiative, to set science-based targets. See [Science-Based Target Initiative \(2015\), sectoral decarbonisation approach \(SDA\) – A method for setting corporate emission reduction targets in line with climate science](#). As of mid-May 2019, 554 companies have adopted or committed a climate science based target globally.

<sup>5</sup> ClimateAnalytics found that “Under a least-cost strategy, the EU and the OECD would need to phase out coal by 2030 (ClimateAnalytics, 2016, Implication of the Paris Agreement for coal use in the power sector); analysis from the IEA well below 2°C scenario (Beyond 2 Degree Scenario, B2DS) indicated that non-OECD countries should phase out coal production by 2040 (<https://www.iea.org/etp2017/summary/>).

<sup>6</sup> The WWF position is to achieve a 100% global renewable energy system by 2050 at the latest, and to ensure that the EU reaches net-zero emissions by 2040.

<sup>7</sup> <https://www.fsb-tcfd.org/>.

**Biogas/biomethane/biofuels are also quite risky**<sup>8</sup>: see the related section 4.1 ‘Tighten EIB criteria for bioenergy’ p.15.

- **Green hydrogen will be costly, hence scarcely available, for at least another two decades.** A study from Ecofys for the gas industry finds that the potential of decarbonised gas (biomethane and renewable hydrogen) can reach 122 billion cubic metres (bcm) by 2050<sup>9</sup> but this decarbonised gas would be 10-100 times more expensive than fossil gas today. Moreover, a more recent estimate of the technical potential for renewable methane published by the International Council on Clean Transportation<sup>10</sup> finds a potential of only 36 bcm of biomethane and power to methane. This is only 30% of the Ecofys figure: it represents a mere 10% of projected residential heating or 3% of power generation in 2050.
- The continuation of investments into low-carbon gases risks being a backdoor for continued investments in gas infrastructure, which could potentially be used to distribute fossil gases.

### WWF recommendations

- If supporting low-carbon gases, the EIB should only consider ‘green hydrogen’: hydrogen from 100% renewable power obtained via electrolysis.
- The Bank should not support first generation crop-based biofuels and biogas: see the related section 4.1. ‘Tighten EIB criteria for bioenergy’ p. 15.
- A project to adapt existing gas infrastructure should only be supported if it can credibly be converted to 100% alternative gases.

## 6. Do not support Carbon Capture and Storage (CCS) in the energy sector

The EIB Draft still considers CCS an eligible technology for investment. This is at odds with the power market’s reality:

- The development of CCS for fossil fuel-fired power plants does not look plausible. As of today, CCS is almost non-existent for the power sector globally<sup>11</sup>;
- In addition, the IEA<sup>12</sup> finds that current investment costs for CCS are at about \$US 9,500 per kW today; while they could potentially be reduced to \$US 4,000 per kW by 2040 assuming highly optimistic large-scale future investments, this should be compared with today’s renewable power capacity costs - already below \$US 1,000 per kW in some regions – that will be even much lower in 2040.

**This clearly prices CCS out of the power market:** it will probably never be competitive with renewable power. Given the developments of renewable power for heat, it is relatively likely that CCS will also be outpriced by renewables for heating.

CCS is therefore a costly and risky option for decarbonizing the energy sector, in which better alternatives are already largely available. The EIB should refocus its CCS interest on other sectors where deep decarbonisation will be more challenging.

### WWF recommendations

- **The EIB should not support CCS in the energy sector** where it is very probably not cost-effective and where better solutions are available;
- If CCS is to be developed, the EIB should instead focus its related potential support on **high-carbon industries** such as steel and cement to ensure their deep decarbonisation.

<sup>8</sup> Except biogas from waste/landfill, but this source will dry out with increasing waste prevention and recycling.

<sup>9</sup> [https://www.gasforclimate2050.eu/files/files/Ecofys\\_Gas\\_for\\_Climate\\_Feb2018.pdf](https://www.gasforclimate2050.eu/files/files/Ecofys_Gas_for_Climate_Feb2018.pdf).

<sup>10</sup> <https://www.theicct.org/publications/role-renewable-methane-eu>.

<sup>11</sup> For example, the IEA B2DS scenario rules out CCS in the EU before 2030, recognising that it will not materialize by then.

<sup>12</sup> IEA (2015), Climate and Energy Special Report.

## 7. End EIB support for nuclear energy

The Bank states that its *'eligibility conditions for support for nuclear power generation and fuel cycle projects remain unchanged from the previous policy'* (p.21).

Several issues should be taken into account:

- Nuclear energy is intrinsically unsafe and poses major environmental and social risks;
- The unit costs of nuclear power production have risen as a result of the increased post-Fukushima safety measures, meaning that nuclear power is outpriced in the power market by its renewable competitors;
- The cost of recent nuclear projects has increased far beyond initial estimates;
- Many EU states oppose nuclear power outright: this is notably true of Germany;
- Nuclear energy is a fossil fuel that should be phased out like hydrocarbons.

WWF is also concerned that the EIB could finance lifetime extensions of nuclear reactors, and recommends the EIB to make its Energy Lending Policy more stringent on nuclear.

### WWF recommendations

- EIB support in the nuclear sector should be focused explicitly on the **decommissioning of nuclear facilities** for those countries or companies that have committed to phase out nuclear power;
- EIB expertise in nuclear projects should be utilised solely for projects that directly and unequivocally lead to the **early closure of reactors**.

## 8. Apply the Transition Package beyond the sole energy sector

As mentioned above, WWF supports the EIB proposal of an Energy Transition Package for countries and regions transitioning away from fossil fuels.

However, there seems to be inconsistencies in the EIB Draft about whether this Package applies to energy projects only or beyond:

- In the executive summary, the EIB Draft proposes a Package that would go explicitly beyond energy projects: *'At the regional level, building on its existing experience and in close cooperation with wider European initiatives in this area, the Bank will reinforce its support for economic development and job creation in regions transitioning away from fossil fuels, including through activities that go beyond energy lending'* (p.4).
- On p.15, it states that *'Under the Energy Transition Package, and as an exception to its general rule, the Bank will consider financing up to 75% of the eligible cost of all energy projects eligible under this energy lending policy'*. It seems that the Package's extra support in a form of 75% financing is only for energy projects, thus for non-energy transition projects there would be no extra financial support proposed beyond technical assistance. We don't consider this is enough.

### WWF recommendations

- The EIB should clarify that the Energy Transition Package will apply to projects beyond the energy sector.
- The EIB should amend other documents than the Energy Lending Policy to integrate, where relevant, the issue of the energy transition and the specific extra financial support proposed.

## 8. Update the EIB carbon footprinting methodology

The EIB Draft only makes reference to the EIB's carbon footprinting methodology in the introduction to the Annexes on p.26. It simply states that the EIB Draft builds on the Bank's general requirements, amongst which is the current Carbon Footprinting methodology. This could be seen as a missed opportunity to review the methodology itself.

### WWF recommendations

- The EIB should clarify when it will review its carbon footprinting methodology, in order to: include Scope 3 emissions in all sectors where they are significant, use an emissions factor for gas of at least 496 gCO<sub>2</sub>e/kWh, and update its Global Warming Potential for methane to 86.

## 2. ENERGY EFFICIENCY

### Analysis of the EIB Draft

**WWF applauds the EIB commitment to integrate the EU 'energy efficiency first' principle** across all energy investment activities, stating that this will translate *'into a requirement to consider carefully the impacts of energy efficiency on future energy demand, when assessing the economic case for energy investments'* (p. 17).

The EIB Draft rightly frames that *'persistent investment gaps'* in energy efficiency still require EIB support, *'in particular the renovation rate of buildings'* (p.13).

**It is quite positive that the Bank will launch a new European Initiative for Building Renovation, with higher capital eligibility to overcome market failures:** *'In cooperation with the European Commission, it will establish a new European Initiative for Building Renovation (EIB-R) to support new ways to attract finance for building rehabilitation. This will examine the development of relatively new sources of energy efficiency finance, such as models of mortgage-based lending. Given the pressing need to accelerate market uptake for energy efficiency, and as an exception to its general rule, the Bank will consider financing up to 75% of eligible capital expenditures under this initiative'* (p.2).

Importantly, the EIB makes clear that energy efficiency in transport is not captured by the Energy Lending Policy (unlike energy efficiency in buildings, industry and SMEs, public lighting and cogeneration, see Annex II p.27). **For consistency, the transport policy of the Bank will therefore need to be revised as soon as possible.**

To further improve the energy efficiency commitments of the EIB, WWF makes the following recommendations:

- 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. However, putting the principle into practice comprehensively also requires building in a standard test whether a supply-side investment could be replaced by a demand-side investment (reduction/flexibility).
- In addition, the EIB Draft does not explain how the financial and economic appraisal of projects and the three pillar framework will be amended to properly implement the energy efficiency first principle in a mainstreamed way. This should be outlined in greater detail.

## WWF recommendations

- **The EIB should set up a standard test whether a supply-side investment could be replaced by a demand-side investment (reduction/flexibility).**
- The EIB should ensure that, and explain how, the financial appraisal of projects is consistent with the objective of reaching zero-carbon energy systems, notably by using a 1.5°C scenario to assess the financial viability of projects;
- The EIB should ensure that, and explain how, the economic appraisal of projects is consistent with the objective of reaching zero-carbon energy systems, notably by adopting higher carbon prices, and requiring consideration of zero-carbon alternatives (including demand-side options);
- The EIB should review its three pillar framework to properly integrate zero-carbon and energy efficiency's multiple benefits into projects' added value assessment: in Pillar One, in Pillar Two, and by integrating Scope 1+2+3 carbon footprinting of projects in the value added assessment.

# 3. ALIGNMENT OF THE EIB PORTFOLIO WITH THE IPCC 1.5 SCENARIO

## Analysis of the EIB Draft

The EIB makes clear that, as a result of phasing out support for all fossil fuels, *'all the Bank's activities in the energy sector will be fully aligned with the Paris Agreement'* (p.3): **WWF strongly supports this major commitment, which should be mainstreamed to all sectors which are critical for the climate as soon as possible (transport especially).**

Furthermore, the EIB Draft recognizes that net-zero emissions are necessary to contain global heating to 1.5°C, which is positive.

### 1. Clarify the reference climate scenario

However, some items of concern remain. Many scenarios aligned with the Paris Agreement include high overshoot, which brings major risk of technological failure. In its commitment to aligning its energy portfolio with the Paris Agreement, the WWF recommends that the EIB align itself with the IPCC's 1.5° scenario with no/limited overshoot.

## WWF recommendations

- The EIB should focus on the 1.5°C climate goal of the Paris Agreement, and use the **IPCC 1.5°C scenario with no/limited overshoot** as the reference scenario with which to align its portfolio.

## 2. Assess and disclose the degree of alignment of the EIB's portfolios with the Paris Agreement

Positively, the EIB commits to reporting 'a breakdown of energy activity by the core themes of this policy. This will include an indicator on the percentage of operations recorded as providing a high contribution to the energy lending policy as set out in the annexes. In addition, the annual report will include an update on the main initiatives announced under this policy' (p.6).

This disclosure is useful and welcome. However, the Bank does not commit to assessing and reporting the degree of alignment of its portfolio with the Paris Agreement, while several tools increasingly enable it<sup>13</sup> and several private banks have publicly committed to doing it<sup>14</sup>. It could be argued that, by ending fossil fuel support, the EIB energy portfolio will become Paris-aligned. However:

- Assessing the degree of Paris alignment of its energy portfolio will provide a crucial benchmark for other MDBs and financial institutions, and will provide a useful check;
- It will remain important for the Bank to assess and disclose the degree of Paris alignment of its portfolio for other critical sectors climate-wise (industry, transport): if this cannot be integrated into the Energy Lending Policy it should enter the Climate Strategy.

WWF therefore recommends that the EIB use this data to issue a progress report on the degree of alignment of its portfolio with the Paris Agreement. This would provide a clear image for the public, for whom the Paris Agreement carries great weight and has strong name recognition.

### WWF recommendations

- **The EIB should assess and disclose the degree of alignment of its lending and investment portfolios with the Paris Agreement**, using tools performing forward-looking climate scenario analysis.
- By consistency, **the EIB should end support for utilities and oil & gas companies that don't commit to Paris alignment**: see related recommendations in section '1.4. End EIB corporate financing for utilities and oil & gas companies that don't commit to Paris alignment' p. 6.

## 3. Build on long-term strategic integrated planning

**It is positive that the EIB clearly refers to National Energy and Climate Plans (NECPs) within the EU and to Nationally Determined Contributions (NDCs) outside the EU** (e.g. p2, paragraph 4). The Bank rightly notes that its investments outside the EU should help advance the EU's leadership on sustainable development and climate action. Therefore, the Bank pledges to 'look to support projects that reinforce Nationally Determined Contributions' for these investments' (p. 16).

The Bank also states that, within the EU, it will support Member States which require greater investments for transitioning to sustainability by covering 75% of the costs of the projects they undertake. It adds that, within the context of the National Energy and Climate Plans, it will 'provide advisory services to support the transition'.

Both these considerations are encouraging and WWF supports them. However, **more will be needed: given its financial and technical expertise the EIB should actively assist Member States in developing more robust, Paris-aligned NECPs, including capital raising plans to attract capital and finance the NECPs.**

<sup>13</sup> See e.g. the PACTA tool, now available for assessing, for free, the degree of alignment of a lending portfolio with a given climate scenario for key technologies climate-wise: <https://www.transitionmonitor.com/>.

<sup>14</sup> <https://group.bnpparibas/en/news/cop24-bnp-paribas-4-leading-banks-commit-global-climate-goals>.

Outside the EU, the EIB should engage with governments so that they develop more specific long term plans for energy infrastructure that are compatible with the Paris Agreement, and support increasing their climate ambition: according to the IEA the current pledges would lead to around 3°C of global warming, not 1.5°C.

#### WWF recommendations

- Given that both NECPs and NDCs have very uneven quality, the EIB should provide its expertise to governments to **improve their NECPs or NDCs and develop more specific long term energy infrastructure plans that are 1.5°C compatible** (both generation and grids), with the aim of achieving 100% renewable energy systems by 2040 in the EU and 2050 globally.
- The EIB should develop specific interventions encouraging relevant governments, as part of their transition, to set up **timebound national coal phase out plans**, building on precedents, aiming at exiting coal by 2030 at the latest in the EU and by 2040 at the latest globally, accordingly to the IEA well below 2°C scenario.

## 4. Strengthen the EIB's shadow central carbon price

The EIB has outlined in Annex V that one of the central documents in the discussion of carbon prices is the report published by the High Level Commission on Carbon Prices, which sets a range of \$40-80 t/CO<sub>2</sub> for 2020 and \$50-100 t/CO<sub>2</sub> by 2030. The EIB states that 'the range of values is well aligned to the EIB's central to high range of carbon values'.

The Bank commits to no longer reporting the low value. This means it will only focus on the central and high values. While this is a welcome development, two limitations should be noted:

- The Bank's central value is lower than the average range of the HLCCP's recommendation.
- As the Bank rightly notes in the Annex, these carbon prices are based on a 2°C target, while the focus is now on the 1.5°C target, as made clear by the IPCC.

#### WWF recommendations

- The EIB should **increase its central carbon price** to align it with the average price recommended by the High-Level Commission on Carbon Prices;
- The EIB should set up carbon prices consistent with an **IPCC 1.5°C scenario** with no/limited overshoot.

## 5. Update the EIB climate strategy in 2020, including its climate spending target

The EIB released its climate strategy in September 2015, shortly before the Paris COP21. Given the major developments since then, the EIB climate strategy is now partly obsolete. The revision of this strategy is alluded to on p. 16 of the EIB Draft, when the Bank discusses its efforts to ensure a just transition through integrated development strategies.

In addition the EIB Draft states, in its Introduction and Proposal, that '*The new ELP is consistent with EIB being the EU climate bank*'.

**As the EU's potential new climate bank**, therefore, the Bank should take this opportunity to commit to a review of its climate strategy in 2020 and increase its spending on climate and transition

objectives. This new role was mentioned explicitly in the ‘Political Guidelines for the next European Commission 2019-2024’ by the **future Commission’s President, Von der Leyen**<sup>15</sup>.

#### WWF recommendations

- **The EIB should update its climate strategy in 2020** to integrate the Paris Agreement, IPCC 1.5°C special report and Commission’s 2050 Zero-Carbon Roadmap.
- This should include a **bold increase of the EIB climate spending target, building on Von der Leyen’s commitment “to at least double it by 2025”**<sup>16</sup>.

## 4. RENEWABLE ENERGY AND RELATED INFRASTRUCTURE

### Analysis of the EIB Draft

Positively, the EIB commits to further investing in the energy infrastructure and solutions to achieve a fully renewable energy system, such as reinforcing electricity networks, storage solutions (e.g. batteries), demand response and decentralized approaches, including new business models (e.g. paragraph 9 on p.3 and p.23).

It is also positive that the EIB recognizes the role of distributed and community energy (e.g. in Annex IV p.38).

However, WWF has recommendations on three issues:

#### 1. Tighten EIB criteria for bioenergy

The EIB states that it considers biomass eligible for investment. **Positively**, it states in Annex II.3 that, aside from being compliant with requirements concerning the sustainability of biomass sourcing and greenhouse gas emissions saving criteria laid down in Directive (EU) 2018/2001, **‘additional criteria may be required by the Bank on sustainability and security of biomass supply. In the case of power-only projects, the Bank’s experience is that these projects often do not meet the Bank’s economic test’** (p.31; see also Annex II p.34). It is a very relevant step forward as the Renewable Energy Directive is a political agreement which is not based on robust scientific evidence and falls short of setting a proper policy framework for bioenergy.

WWF strongly recommends building on this encouraging addition by ensuring that, amongst these additional criteria, **the Bank includes a requirement on operators or projects to carry out a full carbon lifecycle assessment (LCA)** that includes all relevant factors, including combustion emissions, foregone sequestration, decay rates and changes in forest carbon stocks. This would be the most precise approach to ensuring bioenergy delivers better climate benefits than fossil fuels. On that basis, the Bank should require biomass to deliver significant emissions reductions compared to fossil fuels within a short time period – for example, a few years.

<sup>15</sup> [https://ec.europa.eu/commission/sites/beta-political/files/political-guidelines-next-commission\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/political-guidelines-next-commission_en.pdf).

<sup>16</sup> Ibid, p.6.

Indeed, bioenergy has been the subject of a fierce debate for over a decade. Recently, nearly 800 scientists including multiple IPCC lead authors and winners of the Nobel Prize and US Medal of Science made clear that **bioenergy from purpose-grown agricultural crops, stemwood (i.e. tree trunks) and coarse forest harvest residues such as stumps are unlikely to be 'lower carbon' than conventional fossil fuels.**<sup>17</sup> Bioenergy is therefore unlikely to be a major factor in the decarbonisation agenda, and the majority of energy supply in 2050 will need to come from less risky sources such as wind and solar.

If the EIB considers that undertaking full LCAs is too expensive/complex, **a simpler option is to instead exclude biomass taken directly from the forest:** unlike agriculture with methane emissions from manure, there are no cases where the benefits of forest bioenergy are so significant that they are worth boosting investments significantly. This limits the scope to fast-decaying wastes and residues from saw or paper mills, post-consumer waste wood: cases where the waste and residue have no other use.

It should be noted that using biomass in former coal plants, which only operate at 25-35% efficiency, completely contradicts the energy-efficiency first principle.

### WWF recommendations

- **The easiest and safest EIB approach on bioenergy would be to limit its scope of potential support to fast-decaying wastes and residues with no other uses exclusively (excluding stumps and stemwood);** it should not support first generation crop-based biofuels and biogas or coal to biomass conversion.

## 2. Tighten EIB approach for hydropower

Hydropower is an eligible energy source for financing. In the previous years, the EIB rightly developed an 'Environmental, Climate and Social Guideline on Hydropower Development' for project promoters, to clarify what criteria are required or recommended at project level. However, **some key challenges associated with hydropower development (and related risks) occur at an earlier planning stage and, if not addressed at that early stage, cannot be effectively solved at the project level anymore.** The EIB Energy Lending Policy, should therefore clarify the EIB approach at *national* and *river-basin* levels, two critical levels before focusing on the project level.

In addition, WWF believes that the EIB is still partly overlooking how harmful hydropower can be for biodiversity. Freshwater biodiversity has decreased by 83% since 1970: this is more than double the decline of terrestrial and marine species.

The **more than 25000 hydropower plants in Europe** have been identified by the European Environment Agency (though according to WWF estimates this number is higher) as one of the main drivers affecting the status of rivers and resulting in loss of connectivity, altered water flow and sediment transport (EEA 2018). Despite this very heavy hydropower infrastructure in Europe, there are worrying pressures to still develop new hydropower in Europe and beyond.

In this catastrophic context, new approaches, not simply new criteria, are required:

- At national level, evaluate whether the country has a comprehensive long-term strategic renewable energy plan, while including a 'no planning no funding' criterion in the policy to ensure that any specific hydropower project it supports is part of consistent, long-term integrated and strategic energy planning which demonstrates that hydropower has a low environmental impact and is socially sustainable;
- At basin level, ensure that the EIB does not support hydropower projects located in, or likely to affect, formally designated protected areas (eg Natura 2000 sites, Emerald sites and

<sup>17</sup> The Guardian, [EU must not burn the world's forests for 'renewable' energy](#), 15 December 2017.

Ramsar sites, Key Biodiversity Areas (KBAs), specific IUCN Protected Area Categories, UNESCO World Heritage Sites);

- In Europe in particular (**including the Balkans, the Eastern Neighborhood region, EU candidate and potential candidate countries<sup>18</sup>**), **the EIB should stop supporting new hydropower projects**. In this region, the EIB should focus on two major hydropower opportunities:
  - **Retrofitting of existing hydropower including** “incremental hydropower” (increasing generation without building new dams).
  - **Dam decommissioning and removal where relevant:** The EIB should develop a specific dam decommissioning and removal strategy and WWF stands ready to work together with the Bank to develop it with objective, science-based, robust and practical criteria. This strategy could build on Guideline n° 58 in the EIB Hydropower Guidelines.

#### WWF recommendations

- **The EIB should not support new hydropower projects of any size in Europe - including the Balkans and the Eastern Neighborhood region - and fully refocus on retrofitting or dismantling existing hydro.**
- It should set up a ‘no planning no funding’ principle to not support projects in countries that don’t have sensible and evidenced energy planning; and not support hydropower projects that risk impacting freshwater ecosystems of high ecological importance, or in countries that are already hydropower-dependent.

### 3. Support for ‘sustainable internal supply of critical raw materials’

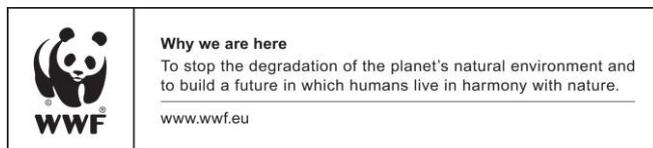
The EIB proposes to support the ‘supply of Critical Raw Material (CRM) in the EU needed for low-carbon technologies’ (Annex II p.30). While this might be a positive step, it is difficult to analyse what this will mean exactly, as very little information is provided on that issue.

#### WWF recommendations

- The EIB should provide more information on what the proposal to support ‘sustainable internal supply of critical raw materials’ (e.g. in the part 3 of Annex II, to provide criteria).

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<sup>18</sup> List of EU candidate and potential candidate countries: <http://ec.europa.eu/environment/enlarg/candidates.htm>.



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