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Dear Madam,

**Public consultation on the EIB Energy Lending Policy**

EURACOAL welcomes this opportunity to comment on the Bank's lending criteria for energy projects.

We recall our submission dated 31 December 2012 made in response to the Bank's last public consultation on energy-sector lending and wish to reiterate points we made over five years ago.

In its current public consultation document, the Bank writes that China and India will each consume more energy than the EU by 2040. In fact, China already consumes far more energy than the EU (90% more) and India will likely consume more within the next decade. This highlights why the EU institutions need to be more cognisant of what is happening elsewhere in the world. Without a solution to the rising use of fossil fuels elsewhere, especially coal, there can be no global solution to the climate challenge.

Rather than such a worldly view, the consultation document reflects EU climate policy aspirations as detailed in the European Commission's *Clean Planet for All* communication of 28 November 2018 and its earlier *Clean Energy for All Europeans* package of proposals dated November 2016. The Bank appears to countenance a 1.5°C climate target, but this was not endorsed by the UNFCCC COP24 and has not been adopted by EU Member States.

The Bank's mandate – as expressed in its Statutes – is to contribute “to the balanced and steady development of the internal market in the interest of the Union” (TFEU, Article 309). We identify three aspects of the Bank's lending policy which appear to be at odds with the Bank's mandate.

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### *Heat and Power Generation*

Coal – both locally mined and imported – is used to fuel combined heat and power (CHP) plants and district heating (and cooling) schemes. In general, modern large-scale power generation combined with small-scale heat generation is very efficient, but a well-designed CHP scheme can deliver even more useful energy to consumers. The EU Cogeneration Directive (2004/8/EC) gives policy support to CHP. Harmonised efficiency reference values for the separate production of electricity and heat are tabulated in Commission Decision 2007/74/EC, with further detailed guidance in Commission Decision 2008/952/EC. Taken together, these documents allow CHP projects to be correctly assessed in terms of their overall energy efficiency. The best projects can deliver significant energy savings compared with the alternatives to yield overall energy efficiencies for heat and power generation of over 80% and sometimes over 90%.

EIB investments in district heating networks or retrofits can increase the efficiency and reduce CO<sub>2</sub> emissions of existing heat and power plants, including CHP plants. Allowing this would be in-line with the Bank's Theme 1 titled *Energy efficiency first*.

Concerning Theme 4 on *Securing the infrastructure needed during the energy transformation*, the Bank should relax its rules on lending to coal-related projects which add to energy efficiency and energy security. In particular, we agree with the Bank that, given the seasonal weather patterns across Europe, the electricity system will need to be able to cope with weeks or months of lower production from wind and solar. Today, only conventional thermal power generation can fulfil this requirement which will only be exacerbated by the increasing electrification of heat and transport. Without any very large-scale energy storage solution, the Bank needs to tread very carefully when deciding to exclude reliable forms of power generation such as coal-fired power generation.

### *Carbon Price*

The Bank uses a shadow carbon price to assess energy-sector investments. EURACOAL is not convinced that this ensures that the Bank's "funds are employed as rationally as possible in the interests of the Union" (EIB Statute, Article 18), because a shadow carbon price provides no actual income stream to cover interest and amortisation payments. Only with the payment of state subsidies or consumer levies can many renewable energy projects be considered financially viable, which casts doubt on whether renewable energy "contributes to an increase in economic productivity in general and promotes the attainment of the internal market" (*ibid.*).

EU climate and energy policy is not founded on any particular carbon price. In fact, the central plank of EU policy is the Emissions Trading System (ETS) which, according to the ETS Directive, aims "to promote reductions of greenhouse gas emissions in a cost-effective and economically efficient manner" (2009/29/EC, Article 1). Ideally, the EU will meet its GHG reduction targets with a low carbon price.

In its response to the Bank's public consultation in 2012, EURACOAL called on the Bank to use a global carbon price in its assessments. If the Bank continues to use a shadow carbon price, based on some policy ideal, then it risks a serious economic dislocation that would leave the EU economically uncompetitive against the rest of the world. Only by using a carbon price that realistically reflects the value of carbon in the global context can the Bank be sure that it is not jeopardising the European economy: an important aspect of its central role of promoting economic, social and territorial cohesion between Member States.

*Emission Performance Standard*

In a hastily prepared half-page document issued on 23 July 2013, long after the public consultation had closed, the Bank proposed an emission performance standard (EPS) of 550 gCO<sub>2</sub>/kWh to screen the Bank's investments in fossil fuel generation projects. We understand that this is to be recalculated every five years, so around now, based on targeted annual emissions from power plants operating under the EU ETS.

EURACOAL notes that the ETS covers many sectors, not just power generation. It is therefore inappropriate to apply an EPS on top of a trading system which is designed to seek out least-cost emission reductions. In fact, applying an EPS goes against the grain of EU climate and energy policy in which Member States have agreed to use emissions trading as the key instrument, and not regulation of CO<sub>2</sub> emissions from individual plants. Moreover, by assigning an average, non-fuel specific EPS, the Bank is in effect outlawing coal while promoting nuclear. This is not acceptable since each Member State has the right "to determine the conditions for exploiting its energy resources, its choice between different energy sources and the general structure of its energy supply" (TFEU, Article 194). In addition, the Bank's EPS denies Member States the enormous benefits that come with renewal and modernisation of older plants: CO<sub>2</sub> emission reductions of up to 40% are possible, but no new coal- or lignite-fired plant can achieve 550 gCO<sub>2</sub>/kWh without carbon capture and storage (CCS) which is still at an early stage of commercial development. Indeed, the modernisation of coal power plants over the coming years is an essential precursor to the successful future deployment of CCS technologies.

Finally, we note that the Bank's EPS has since found its way into EU policy, again at the last minute when the same 550 gCO<sub>2</sub>/kWh standard was added for capacity mechanisms in the Commission's proposal for a regulation on the new electricity market design – without any impact assessment. This was voted on this week in the European Parliament. Here, it seems that the Bank itself established a new EU policy on emission performance standards, rather than furthering those existing EU policies previously agreed by the European Parliament and the Council. More generally, it appears that such decisions interfere with the free movement of capital (TFEU, Articles 63 to 66). If the Bank sets energy-sector lending criteria that exclude certain technologies and fuels, then others will be denied the opportunity to invest in important European projects that are only likely to proceed with the involvement of public banks such as the EIB.

*Conclusion*

We call on the Bank to promote a cleaner and more prosperous future which can be delivered using clean coal technologies that are commercially available today and add to the economic growth, social cohesion and security of Europe.

Yours sincerely,



Brian Ricketts  
Secretary General

cc. EURACOAL members