

The European Investment Bank

and the Environment

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Introduction

The European Investment Bank (EIB) is a major financier of large projects both inside and outside the European Union (EU). These include infrastructure, energy, water, extractive industries and transport projects, all of which can have long-lasting environmental and social impacts.

It adopted its first environmental policy in 1996 only after a long debate with civil society organizations about its lack of one. Its second Environmental Statement was released in 2002, and was criticized by NGOs for the absence of clear environmental, social and development policies and safeguard procedures, which called into question EIB claims of supporting 'sustainable development', as stipulated by EU policy.

During the past year, the EIB has taken a number of steps to improve its environmental policies, procedures and transparency, as well as committing to improving its lending portfolio in the energy field at the Renewables Conference in Germany (June 2004). NGOs welcome these steps, but note that there remains a large gap between actual practice and the statements made on paper. The EIB has a long history of making rhetorical commitments, which are not followed in reality.

The EIB's Evolving Environmental Policy

The EIB states that as the EU's main lending institution, it plays a major role in implementing EU environmental policy. Its prior Environmental Statement released in 2002 outlined the EIB approach to environmental issues when financing projects, stating: "Environmental protection and improvement is in the EIB's top operational priorities".

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Other key claims made were:

- The EIB determines that any project it finances is environmentally acceptable.
- The EIB's target is to ensure that between 25-33% of individual loan operations in the EU support environmental projects, with a similar percentage in the EU Accession Countries.
- EIB objectives are to preserve, protect and improve the quality of the environment, protect human health, ensure prudent and rational utilisation of natural resources and to promote measures at an international level to deal with regional or worldwide environmental problems.
- In financing any investment, the EIB applies the core environmental management principles of 'prevention', precaution, and the 'polluter pays' as called for in EU policy.

While this policy sounds positive, in practice it was often ignored. For example, while the EIB says it supports the EU climate change policy by giving loans in favor of projects fostering rational use of energy, industrial efficiency and renewable energy, it still engages in the financing of large-scale fossil fuel projects. It has begun making controversial loans for the sequestration of greenhouse gases through so called 'sustainable forest development', as well as participating in the development and implementation of the controversial 'flexible mechanisms' under the Kyoto Protocol¹.

¹ The Flexible Mechanisms 'Joint Implementation' and 'Clean Development Mechanism' are the main solutions to climate change under the Kyoto Protocol and involve the trading of carbon between signatory nations in order to meet their emission targets as specified in the Protocol.

The EIB's heavy investments in motorways and airports also undermine the EU's climate change obligations. NGOs have called the attention of EIB Management to many other dubious projects over the past several years².

The new Environment Statement

The latest EIB Environmental Statement was approved by its Board of Directors on May 6, 2004³ and makes the following claims:

- Protection and improvement of the environment is of central concern, and the EIB applies the highest environmental standards – those established by the European Union.
- By applying EU environmental policies as its benchmark, the EIB's approach to safeguarding the environment is at least equivalent to international good practice, such as the "Equator Principles" (2003).
- The EIB's approach to environmental issues is proactive – both in financing environmental projects and in how it manages all its lending, and the EIB supports investment that directly protects and improves the environment.

² The EIB has become one of the main public benefactors of the aviation industry, lending more than EUR 2 billion annually to the sector. Such a heavy bias towards an industry which contributes so significantly to climate change contradicts both the EIB's Sustainable Development and Climate Change policies. Moreover, due to a lack of staff with environmental expertise, as well as a policy which places the environmental requirement burden on the project promoter, the EIB aviation projects does not have appropriate mitigation and compensation measures for affected communities. Financed by the EIB construction of the Terminal 5 at Heathrow Airport in London is one of the examples. This project will affect more than 400, 000 people who were promised that Terminal 4 will be the last major airport expansion. For those people living under the flight path, the noise and extra air pollution can come to dominate their lives. Similar cases can be found in Netherlands, Bulgaria and Poland.

See: <http://www.bankwatch.org/issues/eib/meib.html>

³ See http://www.eib.org/Attachments/strategies/environmental_statement_en.pdf

- The EIB carefully assesses the environmental impact of all projects it finances, ensuring the necessary mitigating measures are in place.
- The EIB ensures that all projects it finances comply with EU environmental policies and standards; take into account local conditions and law in regions outside the EU, as well as EU standards as a benchmark; comply with the EU Directive on Environmental Impact Assessment; apply "best available techniques", as appropriate (e.g. industrial projects); apply good environmental management practices during project implementation and operation; adhere to international good environmental practice; and in developing countries, are in accord with internationally recognised social safeguard measures, including labour standards.
- The EIB now fully supports the sixth EU Environmental Action Programme, which sets the major EU environmental priorities and objectives in support of sustainable development up to 2010 (Environment 2010: Our future, Our Choice (2001)).
- There will be a new emphasis on social issues in developing countries as an integral part of the EIB's environmental work.⁴

The environmental lending objectives of the EIB are described in its Corporate Operational Plan (2004)⁵, which "aims at ensuring that environmental investment accounts for a high percent of its lending within the EU". It also "aims to promote investment in renewable energy projects"⁶ and in cleaner production, especially in a reduction of greenhouse gas emissions. It

⁴ See http://www.eib.org/Attachments/strategies/social_assessment_en.pdf.

⁵ See http://www.eib.org/Attachments/strategies/cop_en.pdf.

⁶ The EIB made some welcome commitments at the Renewables Conference in Germany (June 2004), better than some other major international financial institutions, but it remains to be seen if these commitments are met in practice.

“supports” the EU initiatives in the water and energy sectors launched at the World Summit on Sustainable Development in December 2002 in recognition of the Millennium Development Goals. The current environmental lending targets of the EIB are (1) environmental lending in the EU = 30-35% of total EU lending, (2) renewable energy lending up to 50% of the EIB’s total financing for new electricity generation capacity in the EU by 2008-10,⁷ and (3) lending for projects that result in a reduction of CO2 to be 500 million Euro in the period 2004-06.

EU environmental policies exert the most influence in the EIB approach to financing projects. It also “takes into account, as appropriate,” the policies and practices of other Multilateral Financial Institutions as well as other sources of international good practice, including endorsing the UNEP Statement by Financial Institutions on Environment and Sustainable Development (1992, revised 1997)⁸. The EIB states that its approach is “equivalent to the ‘Equator Principles’” adopted in 2003 by a number of commercial banks and is also based on the International Finance Corporation Guidelines, and that it “subscribes to these principles when operating outside the EU.”⁹

⁷ However, EIB wants to count large hydro dams in this figure, which NGOs disagree with strongly. See the EIB’s statement on its renewables plans at http://www.eib.org/Attachments/thematic/renewable_energy_en.pdf

⁸ See <http://unepfi.net/fii/english.htm>

⁹ See http://www.equator-principles.com/documents/Equator_Principles.pdf - but note also that CEE Bankwatch received a letter from two senior EIB officials on July 29 as follows: “The EIB subscribes to the Equator Principles, in the sense of supporting them. The Principles serve as an important benchmark for the Bank when operating outside the European Union. The general approach of the Bank is based on the application of EU environmental policy, including principles and standards enshrined in European law and equivalent to the Equator Principles in most respects. EU environmental law does however not cover all environmental and related social issues in an appropriate way when operating outside the Union. For this reason, the Bank uses the Equator Principles to fill in gaps in its policy armoury when working in these regions. In cases, where the

- “In regions outside the EU and the Candidate Countries, projects must comply with the principles and standards set by EU policies, subject to local conditions and law. Issues taken into account include income per head, institutional capacity and the costs and benefits of alternative standards. In certain circumstances, higher environmental standards may be introduced in stages; in others, a project may be designed in anticipation of future higher standards.” EIB projects “should comply with any obligations and standards of multilateral environmental agreements to which the host country - and/or the EU in the case of a Member State - is a party.”
- The EIB states that it requires that all projects likely to have a significant effect on the environment be subject to an Environmental Impact Assessment (EIA), according to the definitions and requirements of Directive 85/337/EEC, amended by Directive 97/11/EC. Annex I of the Directive lists the types of project for which an EIA is mandatory and Annex II the types of project for which the need to carry out an EIA is decided by the competent authorities. But the EIA, which includes public consultation, is the responsibility of the promoter and the competent authorities.
- “In regions where EU and/or national social standards do not exist or are inappropriate, the EIB uses other guidelines of good international practice. In particular, the Bank takes into account the IFC Safeguard Policies on indigenous peoples, involuntary resettlement and cultural property as well as the core labour standards

Bank needs to take local policy and law into account, it will also use the Equator Principles as a reference. In co-financing operations with financial and business institutions, the EIB welcomes collaboration with institutions that have adopted and apply good international environmental practice, such as the Equator Principles.” Thus the question of whether or not the EIB subscribes in reality to the Equator Principles remains in doubt.

that apply to members of the International Labour Organization (ILO).

In such matters, the Bank coordinates its approach with the European Commission, responsible for external assistance to developing countries.”

- “Projects financed by the EIB must safeguard biodiversity. In support of the general approach described in the sixth “Environmental Action Programme” and the principles of Directive 92/43/EEC (Habitats), the Bank requires an appropriate assessment of the biodiversity effects of a project, including a detailed assessment of any likely significant effect on protected sites and/or species. Where the effect is likely to be significant, it requires the identification and implementation of appropriate mitigation and compensation measures, as a contractual undertaking.”
- “For industrial installations, the EIB promotes the application of “best available techniques” (BAT), according to the guidelines associated with Directive 96/61/EC (Integrated Pollution Protection and Control) and other best practice guides.

Environmental Information

The EIB states that it “supports development of awareness and cooperation on environmental issues through its disclosure policy” – its 2002 Information Policy Statement. However, that policy is riddled with loopholes, which have been the subject of extensive NGO critiques as failing to provide timely information about projects to communities and NGOs. Based on experience over the past several years, NGOs are far from happy about the treatment of their requests for information about various projects during the past years and continuing up to the present.¹⁰

¹⁰ See the separate fact sheet on EIB’s Information Policy and the realities faced by NGOs and communities in obtaining important information about projects.

EIB Environmental Procedures

The EIB’s environmental procedures continue to claim that all projects are examined through the EIB’s own environmental assessment procedure focused in the Environmental Unit (ENVU). This procedure draws on ‘its extensive in-house knowledge and expertise, information provided by the promoter and other evidence from informed opinion and affected parties’. The EIB team carrying out the assessment theoretically does so from economic, technical, financial and environmental points of view, and generally consists of an engineer and/or economist with relevant sector specific skills and knowledge from the EIB projects Directorate (PJ). This is backed up by three relatively new ‘environmental expert’ departments within the EIB, which were set up in 2002 only due to consistent NGO pressure for improvements.

ENVSC: A cross-Directorate environmental steering committee to provide guidance to the EIB’s decision-making bodies on new key policy issues as they arise. There is so far little evidence that ENVSC has added any value to the EIB deliberative process.

ENVAG: A specialised environmental assessment group, with the role of strengthening the environmental assessment capability of the EIB Projects Directorate, by continuously developing methodologies and enhancing expertise. The outputs and functioning of the ENVAG are largely unknown to the public at this time.

ENVA: An Environmental Unit, also within the Projects Directorate, as a focal point for the development and dissemination of the EIB’s environmental policies and procedures and responsible for nurturing existing and new external relations on the environment.

In reality, from an NGO perspective, the EIB has barely changed at all over the past two years through the creation of these three new internal bodies, as they consist of existing staff and hardly any new capacity was added. Environmental specialists on staff have hardly increased. Therefore, the EIB's expertise with regards to the environment remains negligible, and it is simply impossible for the institution to comply with all of the new commitments it has been making. The second main problem is that the principal environmental responsibility remains with the project promoter, the company that has a vested interest in receiving a loan.

In summary, while the EIB's environmental assessment procedure has improved in theory, and perhaps a little in practice, it lacks robust implementation up to the standards of the World Bank and the EBRD. However, the fact that the EIB created three new bodies to improve its performance shows that it has recognised the need for change. How they will influence environmental protection is still to be seen, and whether the EIB has the willpower to implement proper standards remains in doubt.

NGO Demands

In relation to the problems identified, NGOs have proposed the following reforms:

- Strengthen EIA procedures and introduce a similar proactive approach as the World Bank and the EBRD.
- Release all project information that is relevant to the environment regardless of whether the recipient of the loan is private or public. That would bring the EIB up to the same level with the World Bank's International Finance Corporation and the EBRD. This would include releasing detailed information about Global Loans made through intermediary banks and how these loans would benefit the environment.

- Hold in depth and open public consultations for projects with environmental and social implications. This would require both the EIB and project promoters to cooperate in doing so.
- Formulate policies on key sectors such as energy, water and transport in line with EU requirements for the integration of sustainable development into all policies and practices. This applies to all sectors and projects in general.
- Upgrade the EIB's environmental expertise by employing specialists to work with the existing staff of economists, engineers and lawyers.
- Establish clear legal obligations with regard to fulfilling its requirements as a public institution in the EU to make it more accountable to the public. This would include strengthening the role of regulatory institutions such as the European Court of Auditors, the European Parliament and the environmental department of the Commission (DG Environment).
- Establish clear criteria and safeguard procedures for its operations outside the EU with regard to the environment.
- Give priority to projects that promote energy efficiency, conservation and renewable energy initiatives.
- Ensure that communities likely to be affected by a project are fully integrated into the consultation process, including the advanced provision of all project documentation in local languages.

Further reading and information:

EIB Environment documents: Procedures -
http://www.eib.org/environment/docs/envirproc_en.pdf

Environmental Statement -
http://www.eib.org/environment/docs/envirstate_en.pdf

Sustainable Development -
http://www.eib.org/environment/docs/susdev_en.pdf

Climate Change -
http://www.eib.org/environment/docs/climate_en.pdf

Renewable Energies -
http://www.eib.org/environment/docs/reneregy_en.pdf

Urban Development -
http://www.eib.org/environment/docs/urbandev_en.pdf

Bankwatch web site:
<http://www.bankwatch.org>

EIB web site:
<http://www.eib.org>

Facts behind the Rhetoric: A preliminary assessment of certain aspects of the EIB portfolio:
<http://www.bankwatch.org/issues/eib/mngo materials.html>

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European Investment Bank fact sheets:

Fact sheet 1: Invisible Power in the European Union: The European Investment Bank

Fact sheet 2: European Investment Bank: Basic Facts

Fact sheet 3: Kafka's World: European Investment Bank's Information Policy

Fact sheet 4: The European Investment Bank and the Environment

Fact sheet 5: The European Investment Bank's Role in Development

Fact sheet 6: Theory and Practice: European Investment Bank - Case Studies

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