NGO Briefing paper

The EBRD and coal

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CEE bankwatch network

CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

Global context

In recent years there has been a systematic rise in the prominence of climate change in world politics. Politicians have increasingly been recognising the role of the international financial institutions not only as a channel for directing funds for adaptation and mitigation of climate change, but also as a problem, due to their continuing support for projects which increase emissions of greenhouse gases.

The Intergovernmental Panel on Climate Change has no doubt that, in order to keep the global temperature increase below 2° celsius compared to pre-industrial levels and avoid catastrophic, runaway climate change, a dramatic reduction of emissions must happen very quickly: 80-95 percent reductions in the developed countries by 2050 and a substantial decrease compared to business as usual in the rest of the world. The European Council, the highest decision-making body of the EU, has called for at least 50 percent worldwide reductions and aggregate developed country emission reductions of at least 80-95 percent by 2050.

In 2007 the European Parliament called for the "discontinuation of public support, via export credit agencies and public investment banks, for fossil fuel projects"[1]. This was followed in 2009 by the G20 summit in Pittsburgh, where leaders of the top countries called for the phasing out of inefficient fossil fuels subsidies, which would reduce overall human induced GHG emissions by 10 percent by 2050[2].

Where does the EBRD stand?

Despite the fact that the EU countries portraying themselves as leaders in tackling climate change have a majority stake in the EBRD[3], the bank has actually been increasing its massive investments in fossil fuels.

Furthermore the bank has indicated its willingness to engage more in financing coal, the dirtiest of

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1 European Parliament, resolution from 29 November 2007 on trade and climate change.

2 Leaders' Statement: The Pittsburgh Summit of G20, September 24-25, 2009.

3 Apart from the EU member states also the European Union and the European Investment Bank have shares in the EBRD and are represented in the highest decision-making bodies of the EBRD.

all fossil fuels, that not only has huge climate impacts (CO2 emissions), but also causes serious environmental and social impacts through emitting sulphur and nitrogen oxides, mercury and ashes in amounts not comparable with any other fossil fuel. According to Bankwatch calculations investments in coal, including energy efficiency in coal power plants and mining, constituted almost 20% of aggregated investments in fossil fuels between 2006 and 2009. In line with the general tendency of increased EBRD lending for fossil fuels, coal investments are also on the rise[4].

EBRD Plans

Unlike some other public banks, including the European Investment Bank and the World Bank, the EBRD's energy policy[5] does not restrict its lending for coal to particular kinds of projects or countries. The recent example of the lignite power plant in Sostanj, Slovenia, shows that the bank is willing to finance this fossil fuel even in high-income countries of the EU. In the power sector the bank has traditionally focused on projects contributing to the transition to a market economy, among others though support for privatisation, introduction of best available technologies and new management structures. In the coal mining sector the EBRD seeks to advance the modernisation of the industry and sector restructuring, particularly in terms of reducing the role of the state and improving environmental, health and safety standards.

In the last couple of years alone the EBRD has, through various means, supported the coal industry in Russia, Kazakhstan, Romania, Mongolia, Serbia and Slovenia. The EBRD may participate in the financing of selected new coal TPPs in CEE. According to the recent EBRD Country Strategy for Poland the bank may "Participate in the financing of nationally important projects in the energy sector (contributing to energy security, replacement of obsolete energy production capacities, achieving BAT standards, reduction of energy intensity and diversification)". There are media reports about the EBRD being in talks with the investor planning to build a new coal thermal power plant in the North of Poland (near Pelplin) with a capacity of 2000 MW.

Furthermore, as the EBRD's Capital Resources Review (CRR4) documents have revealed, among other things the planned increase in the bank's capital is intended to include the financing of coal activities in Ukraine, Central Asia and South Eastern Europe[6].

The most recent cases

[4] EBRD energy lending figures 2006-2009, Bankwatch 2010, http://www.bankwatch.org/documents/EBRDenergylendingfigures2006_2009.pdf

[5] The current energy policy of the EBRD can be accessed here: http://www.ebrd.com/downloads/policies/sector/energy_policy.pdf . The revision of the policy is scheduled for the 2012.

[6] http://www.ebrd.com/downloads/policies/capital/crr4b.pdf

1. Mining Mongolian coal for China's growing demand

The EBRD has in recent years become heavily involved in the coal mining sector in Mongolia. EBRD operations in Mongolia commenced in 2006 and since then four out of a total of fifteen signed projects in the country have involved coal mining.[7]

Three of the projects, for Energy Resources I and II (EUR 30 million equity and a loan of up to EUR 180 million) and Leighton Mongolia (EUR 35 million loan) have supported the development of the Ukhaa Khudag deposit, from where much of the coal is exported by trucks to China along more than 200 kilometres of dirt tracks. The coal washing plant supported by the Energy Resources II loan is by far the largest EBRD investment in Mongolia so far. The EBRD claims to add value by increasing private sector participation and improved business conduct, however it is far from clear why the bank should use its scarce resources to help companies extract coal more efficiently. In this context it is important to mention that in 2010 Mongolia was responsible for almost 40% of China's coal imports[8].

2. Hampering EU climate goals in Slovenia

Slovenia plans to build a new 600 MW unit for the Sostanj lignite power plant (TES6) which would replace some of the power plant’s existing units. Its promoters point to the increased efficiency of the new block, but in fact, this one lignite power plant alone would swallow up almost the country's entire carbon budget for all sectors by 2050 (if it cuts emissions by 80 percent – a minimum according to the European targets of 80-95 percent).

Notwithstanding EU ambitions to combate climate change, the project is being heavily supported with public money from two European public banks. In January 2011 the EBRD and TEŠ signed a contract for EUR 200 million, of which €100m will be provided by the EBRD and EUR 100 milllion is to be syndicated to commercial banks. The European Investment Bank last year approved the last tranche of a loan worth altogether EUR 550 million, so almost a half of the EUR 1,2 billion costs of the investment. The future of this risky project is still uncertain, because Slovenian government still needs to provide a guarantee for 80% of the EIB loan.

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[7] http://www.ebrd.com/saf/search.html;jsessionid=59CD5FB952B34FFD753AEAA7A93B54DC?type=project

[8] http://www.google.com/hostednews/afp/article/ALeqM5gzd31N9kYyhbnjIDLen7hDpuTF7g?docId=CNG.273270170b9bb2d7b2be0a00f1d8156f.7d1

3. Sustaining coal dependency in the EU neighbourhood

In July this year the EBRD board of directors approved a loan worth EUR 80 million for the expansion of the largest lignite mine in Serbia. 70 percent of electricity used in Serbia comes from coal power plants and approx. 30 percent from hydro power plants. The Kolubara mining complex, financed by the EBRD for the second time in the last 10 years, is already responsible for 75 percent of Serbian lignite production. This investment is a step required for guaranteeing a stable supply for a new plant to be built nearby by Italian company Edison[9]. The construction of an undersea cable between Montenegro and Italy would allow for coal-based electricity from Serbia to be exported to Italy, constituting a scandalous example of carbon leakage.[10].

The Bank justifies its involvement in this project with improvement in efficiency of coal extraction and combustion. However this cannot be a justification for supporting the mining of 87 million tonnes of lignite in the eastern part of Kolubara basin[11] and for ignoring the forced resettlement of the local population[12].

Recommendations

If the EBRD wants to support not only transition but a transition to a safer and sustainable future it should:
1. Stop financing new coal mines, coal TPPs or coal-fuelled district heating plants.
2. Avoid supporting the modernisation of existing coal facilities, when it results in prolonging their lifetimes or an increase in production.
3. Stop acquiring equity stakes in companies that are investing in coal or have plans to do so.

This means that the EBRD should restrict its activities in the coal sector exclusively to:
- improvements of environmental and social standards – for example health and safety – as long as they do not result in the prolongation of the facility's operation or increases in production
- support for closures and decommissioning of existing coal mines and TPPs.

For more information

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[9] The EBRD board document, July 2011.

[10] Serbia: a €1.5bn Italian power plant – with enviromental costs, Financial Times blog, 22 June 2011.

[11] Environmental Impact Assessment Study for the project „Coal exploitation in the open case mine „field C“, Belgrade 2009.

[12]http://bankwatch.org/news-media/blog/ebrd-dont-open-pandoras-box-lignite-open-cast-mine-serbia