NGO Issue Paper

The transport sector in the EU must de-carbonize. Is the EIB ready to contribute to it?

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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.

The EIB is one of the key institutions in implementing EU policy. Being both a bank, and having a mandate to support EU policy, it is one of very few institutions that can really influence EU infrastructure investments on a very large scale by careful use of its funds.

At the same time transport investments represent a large share of the EIB's portfolio in the EU 27. At the same time transport GHG emissions in the EU are continuously rising. Below we provide facts about the EIB's performance in recent years, since the approval of the current transport policy in 2007.

Overall, the EIB needs to clarify what it wants to achieve with its transport sector lending, and put this in line with the EU's priorities. Will the EIB be contributing to the achievement of the EU goal of decarbonising the transport sector? Or is it seeking just slightly more efficient business as usual? Fuelled by what? With external costs paid by whom?

Without having a set up with a clear overall vision it will be extremely difficult to attain the required delivery of the best public value for the (limited) amount of money available.

Policy orientation in EU transport

Among the goals of EU transport policy, we believe that the most pressing at this time is greenhouse gas reduction, which also entails a number of other important benefits such as decreased energy dependence and a reduction in other pollutants.

According to the European Environment Agency, in its 32 member countries, greenhouse gas emissions from transport (excluding international aviation and maritime transport) increased by 28 % between 1990 and 2007 and now account for just under 19.3 % of total emissions. If international aviation and shipping and the emissions tied to providing transport infrastructure, producing vehicles, exploration of oil and gas etc., are also added, then total transport sector emissions reach almost one-third of all emissions.[1] This rise in emissions constitutes an urgent

[1] European Environment Agency, Towards a resource-efficient transport system: TERM report 2009, EEA Report No 2/2010, p.14

need for the EU and its member states to take firm action on reducing greenhouse gas emissions from transport. Investment decisions that are one of the most tangible measures to deliver transport policy will have an impact on the sector for several decades to come. Therefore, the European bodies will have to be particularly careful in the planning and the selection of projects that they will support in the future.

Given the EIB's particular importance in implementing EU transport policy, in 2007 CEE Bankwatch Network launched a report entitled *Lost in Transportation*, which examined the EIB's transport lending practices, and criticised the bank for lending too heavily for the most carbon-intensive mode of transport – aviation – especially airport expansion and fleet expansion. The report found that the EIB too often simply follows client demand and does not examine the cumulative impact of its investments on achieving various EU policy goals, preferring to concentrate on the simplest ones such as implementing projects designated under the Trans-European Transport Networks.

It also urged the EIB to pay sufficient attention to demand management and we are concerned that the EIB now seems to be trying to justify the abandonment of the Avoid-Shift-Improve (ASI) approach altogether and concentrating only on 'Improve'.

The European Environment Agency has repeatedly warned that transport demand and the dominance of road transport need to be addressed, and pointed to the need to employ a mixture of ASI policies:

"*Whilst none of the scenarios considered would deliver the desired 80% cut in CO2 emissions by 2050 the greatest savings potential arises from the combined package, in which technological improvements that reduce fuel consumption are used alongside measures to shift journeys to lower emission modes and to avoid the need to travel altogether. It is clear therefore that we need to implement a package of policy measures that do not rely solely upon technology.*"[2]

The EIB's transport investments under its 2007 transport policy

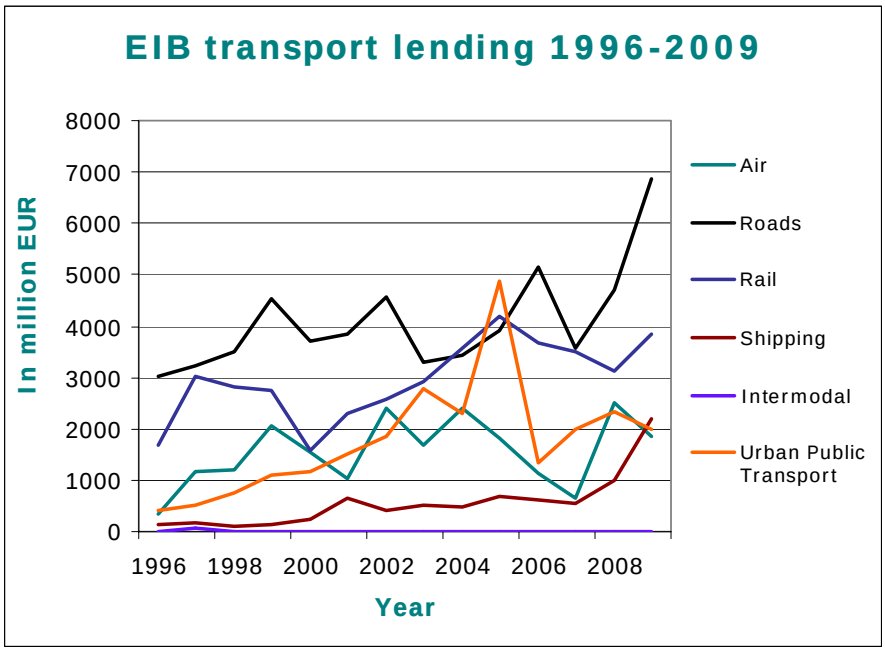
Unfortunately, in spite of the welcome emphasis on climate considerations, the EIB's 2007 transport policy has not led to positive changes in the EIB's transport lending. The graph below illustrates the trends in the EIB's investments (by volume) before and since the new policy was published.[3]

- Lending for road transport (not including car manufacturing or R&D) has greatly increased under the new policy.

[2] European Environment Agency: Towards a resource-efficient transport system: TERM report 2009, EEA Report No 2/2010, p.29

[3] The figures used are based on the projects listed in the EIB's annual reports and may thus differ from the figures reported by the EIB on p.7 of the EIB's own transport issues paper, published in 2010. Annual report figures were used in order to maintain consistency with the figures from the years before 2007.

- There has been a dramatic decrease in lending for urban public transport since its peak in 2005.
- Rail lending has declined slightly since its 2005 peak.
- Aviation lending has fluctuated with a very gradual upward trend.
- Shipping lending has grown since 2007.
- Intermodal transport is hardly being supported at all, unless it is being done under other categories without being identified.



EIB transport lending 2006 – 2009, in EUR million[4]

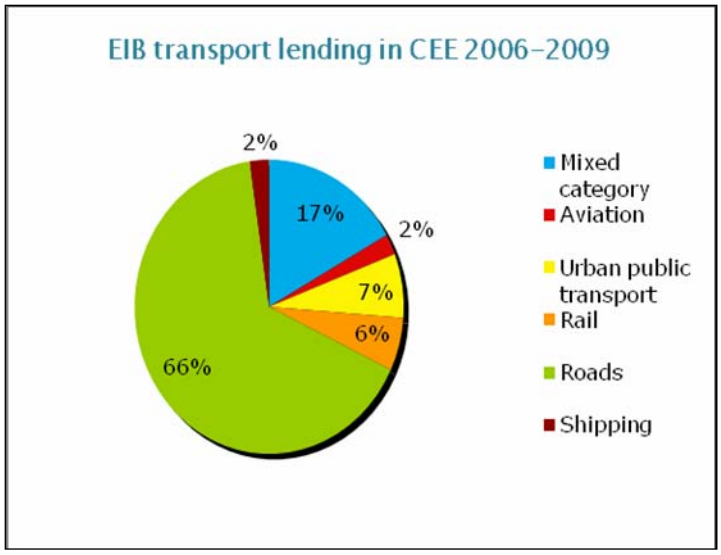
Car manufacturing	9912.9
Other transport industry	2402.5
Mixed category	2747.4
Aviation	6142.5
Urban public transport	7648.5
Rail	14141.7
Roads	20249
Shipping	4320.5

A breakdown of the EIB's transport and related industry investments from 2006-2009 shows that out of a total of EUR 67.6 billion lent over the period, 45 percent (EUR 30.2 billion) went for road-based transportation alone; with a further 9 percent (EUR 6 billion) for aviation, making 54 percent for the most carbon intensive modes compared to 32 percent for the modes with a smaller climate impact – rail and urban public transport.

[4] The year 2006 was included although the EIB's new transport policy had not been introduced partly because our last research extended until 2005 and so it was logical not to have a gap in our data overall, and also to give a slightly bigger sample of data.

If the EIB's massive support for car manufacturing and its other transport-related industry investments are excluded, support for road transport has made up 36 percent of lending – by far the largest sector – while aviation has made up 11 percent.

The situation in Central and Eastern Europe gives even more cause for concern, with at least 66 per cent of investments being made into roads (with additional unknown quantities of the mixed category investments also comprising road investments).



While it may be argued that road transport serves more people and therefore needs more investments, it is crucial to note that this will simply reinforce the current state of affairs where road transport is dominant over more environmentally benign modes because it does not pay its external costs. While investment in road maintenance is certainly needed, 80 percent of the EIB's road investments 2006-9 were for construction of new roads or upgrading capacity. 13 percent were for rehabilitation, while the other 7 percent were unclear.

What now for the EIB?

Below we summarise Bankwatch's most important concerns about the current EIB transport policy (we quote its relevant parts in italics) and outline 10 core recommendations for the direction of its transport investments in the future.

Guiding principles

"*The EIB pursues an approach that strives for the most efficient, most economic and most sustainable way of satisfying transport demand. This requires a mix of transport solutions, covering all modes*".

1. The EIB should not confuse the whole transport system with the EIB's contribution. While it is clear that all modes have relevance for the transport system as a whole, the role of the EIB and other public financing bodies is to contribute to achieving policy goals that would not otherwise be achieved, such as greenhouse gas reduction or to support investment that would not arise through the application of the user-pays principle.

2. The EIB needs to assess scenarios of future transport needs and favour measures based on the Avoid, Shift and Improve approach that will contribute to de-carbonization and will meet other environmental, social, but also financial imperatives. It must also actively seek to finance

projects that reduce transport demand and focus on selective supplementary infrastructure measures - like e.g. user friendly public transport terminals, deeper integration of suburban/ regional rail into the transport system in urban areas, investments into public logistics centres that would ease the development of combined transport, pedestrian and cycling based urban developments.

3. The EIB needs to set up clear screening criteria to be used for the proposed measures and individual projects to pass to a higher level of consideration. Those criteria need to be clearly linked to excluding projects on the basis of their negative climate impact and taken into account following aspects:

- Contribution to the decarbonisation of the sector (a credible and transparent methodology to perform the carbon accountancy of the measures and projects needs to be developed),
- Compliance with the EU climate 2020 goals,
- Respect for NATURA 2000 sites,
- Respect for human settlements (e.g. reducing or eliminating external costs such as noise, fragmentation).

Only such measures and/or schemes that pass the exercise should be able to continue to a further level of consideration where also other aspects (Multi-Criterial Analysis, Cost-Benefit ratio) would be considered.

TEN-T

"*The EIB continues its strong commitment to the development of TENs. These are long-term investments with an essential role in achieving an efficient and cohesive Community-wide transport system*."

4. As the EU is reviewing its overall TEN-T policy, so should the EIB. Any bank support for the Trans-European Network - Transport (TEN-T) should be conditioned by a thorough assessment of the climate impact and alternatives in terms of different modes and demand management solutions.

Reducing GHG emissions

"Priority continues to be given to railways, urban transport, inland waterways and maritime projects as these are intrinsically the most promising in terms of reducing greenhouse gas emissions per transport unit."

5. As we shall see above, reality has not reflected this theoretical priority given to the more environmentally benign modes. The EIB needs to be more pro-active in seeking out good

quality projects in these sectors. Rail, urban public transport and intermodal transport should make up the vast majority of the EIB's investments *in each country*.

RDI

"Further emphasis is given to RDI activities with vehicle manufacturers whatever the sector involved. This focuses primarily on ensuring energy efficiency, emissions reduction and safety enhancement."

6. We agree that – provided there are clear results from the RDI activities in terms of efficiency and safety improvements – RDI is an acceptable target for public financing. However this cannot be the main plank of the EIB's transport emissions reductions strategy, as it does not address the question of growing traffic volumes. Regarding the EU's emissions reductions legislation aimed at reducing average new car emissions to 95 g CO/km by 2020, the EEA has warned:

"Unfortunately, traffic levels are growing at around the same rate as we see average fleet emissions declining, meaning the net effect may still be far from what we want. There are initiatives to include vans and, with a longer time perspective, trucks into emissions regulations. But without complementary measures there is still a risk that some of the improvements will be balanced by the growth in traffic."[5]

7. In addition, the increase in efficiency in itself, if not accompanied by rises in fuel costs, would to some extent lead to increases in transport. In 2009 the amounts lent for automotive RDI by the EIB were extremely high and it is to be hoped that such levels of support for the private automotive industry will not be repeated.

Automotive sector

8. The EIB, in our opinion, should not finance car manufacture at all. This is not a public interest objective and should be carried out through private investment. If the EIB wishes to support employment in convergence regions it would be much more far-sighted to support emerging industries such as renewable energy and energy efficiency.

Roads

"All road projects should demonstrate appropriate economic returns. Road projects with weak economic value are avoided."

9. The road transport sector enjoys anti-competitive advantages such as free use of infrastructure

[5] European Environment Agency: Towards a resource-efficient transport system: TERM report 2009, EEA Report No 2/2010, p.8

and failure to pay its external costs, and as explained above, traffic levels are growing at around the same rate as efficiency of road vehicles is increasing. In 2007 we asked the EIB **to concentrate investments in this sector on maintenance of existing routes and safety improvements**. As can be seen below and from the figures on p.7 of the issues paper, the EIB has actually *increased* its road investments since then, and continues to focus on new construction and capacity expansion.

While we agree that road projects should demonstrate appropriate economic returns, we would emphasise that **all relevant EIB infrastructure investments must be conditional on the carrying out of a Strategic Environmental Assessment** on the plans and programmes containing the project. The bank must also **ensure that the project is also compatible with other policies such as the EU's Sustainable Development Policy and climate targets**.

Airports and Air Traffic Management

"Airport projects are supported when they demonstrate high economic value, also taking into account potential future adjustments to demand including those occurring when the emission burden is carried over to consumer prices (e.g. through inclusion of airlines in the EU Emission Trading System). Air Traffic Management investments are a priority where they can show improved safety, efficiency and reduced emissions."

10. Considering that aviation is by far the most carbon-intensive sector and that it is already subsidised through lack of tax on kerosene and lack of VAT on air tickets, the EIB needs to stop financing the air transport sector, particularly airport expansion. Aviation's rapid growth is not likely to be addressed by the policies adopted so far, particularly as the emphasis has been placed on including aviation into the EU Emission Trading Scheme. Even according to the Commission's own Impact Assessment, significant emissions reductions from the aviation sector will not occur and aviation emissions will have grown by 78% between 2005 and 2020, instead of 83% under a 'do-nothing' (business-as-usual) approach.[6] This means that significant additional measures are needed, both to increase aviation's efficiency and to reduce aviation demand.

For more information

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[6] AEF, CAN Europe, FoE Europe, T&E and WWF: Including aviation in the EU Emissions Trading Scheme - Joint NGO statement on key improvements, updated April 2008 - the original Impact Assessment no longer appears to be online.