



Brussels, 9<sup>th</sup> July 2020

Dear Stephen O'Driscoll,

The Club of Rome, the EIT Climate KIC and the Energy Transitions Commission (ETC) - commend the ambition that the EIB Group has taken towards climate action and environmental sustainability in recent months. This is particularly evident in the EIB's commitment to phase out support for unabated fossil fuel projects last November 2019. An important building block in the EIB's strategic shift towards Paris Alignment. With this landmark decision you have demonstrated to the world that you are indeed ready to become Europe's Climate Bank and move Europe into a low carbon 21<sup>st</sup> century.

Together, we believe that Europe's pathway towards carbon neutrality is a European Green Deal and a dedicated climate bank to ensure proper capital flows to funding both the green recovery and a low carbon revolution. However, to ensure a successful revolution we also believe that we must look at the adoption of a linked up systemic approach that both addresses the optimisation of sectoral shifts alongside local and national action. Taking this approach would ensure any future reputational and credibility risks of protecting the status quo or only spurring incremental change are avoided.

In this respect, we recognise and welcome the transparent and inclusive approach the EIB has taken so far to build on these commitments and turn ambition into reality through its Climate Bank Roadmap and stakeholder consultation process. A roadmap that, in our current COVID-19 context, can position the EIB as pivotal in ensuring a green, resilient and inclusive COVID-19 recovery, enabling the EU to effectively emerge from the current health emergency and build resilience to future health and climate shocks.

To support the EIB in reaching its climate action and environmental sustainability goals we share below some reactions to the EIB "Climate Bank Roadmap 2021-2025" document. Please accept our effort to support you in setting the expectations as the EU's climate bank, aligning economic analysis with the Paris Agreement, effectively tracking climate action and environmental sustainability targets and utilising synergies with other financial actors.

## 1. Setting new expectations as the EU's Climate Bank

It is imperative for the EIB to set out a **clearer long-term vision of transformation** for it to become the EU's Climate Bank. This implies to not only revise methodologies to screen projects based on sustainability and climate criteria, but also to proactively develop a view of the key areas of investment required across the European economy to drive the continent towards net-zero emissions by mid-century, identify related financial de-risking needs and engage with its portfolio of clients on those opportunities. Paris alignment at 1.5 degrees will not be achieved by a financial market that seeks to minimise environmental externalities but rather by a financial market that is regenerative – the EIB should lead this transformation.

As Europe's public investment institution, the EIB should not only set the path for other finance institutions in the transition but take investment decisions which other institutions are currently reluctant to take. The Climate Bank Roadmap documentation does define clear targets for 2050, however, targets that are thirty years in the future are vague for investors today. To support the transition to low carbon alternatives, the EIB could enhance its support of market players by sending clearer signals regarding expectations for the short-term (2025), mid-term (2030) and long-term (2050) for different economic areas. Those expectations would ideally encompass both Paris alignment criteria

applied to any project submitted to the EIB and a vision of the types of projects expected to underpin the EU's climate trajectory.

Such goals or intent should be built on an understanding that the EIB should be able to support early stage low-carbon technologies as well as more mature technologies. Early stage technologies are regularly uncommercial and require longer investment frames (i.e. will not be delivering a return on investment within one to two years), while mature technologies expect to deliver return on investment within shorter timeframes but require de-risking mechanisms to reduce their financing costs on private markets. By financing early deployment of new technologies, the EIB can play a critical role in accelerating their scale-up, unlocking cost reductions through economies of scale and learning curve effects that will benefit whole sectors of the European economy.

## 2. Aligning economic analysis with the Paris Agreement

By aligning its economic analysis with the Paris Agreement and identifying investments that prioritise high impact long-term investments rather than a blanket spread across all activities, the EIB would be able to deliver on the commitment to make energy efficiency investments a priority. It would lead to support for measures to reduce resource demand and waste through circular economy approaches, to accompany the growth of low-carbon energy sources indispensable to underpin the decarbonisation of many energy-consuming sectors, and ensure that new climate friendly and sustainable development innovations are brought to market and deployed at scale.

The Climate Bank Roadmap document implies that the EIB might rely on models that utilise historic data to predict the future. Given that we have never before been faced with a challenge to decarbonise at the scale required to reach 2050 neutrality, reliance *on historical data to predict future trends* is a high-risk approach that is likely to be as unreliable as annual weather forecasts. The current COVID-19 pandemic has further demonstrated that we are in a situation of emergence, i.e. we have not been before and would not have predicted outcomes using solely recent historic data. We therefore recommend that the EIB adopts forward looking scenarios into its economic analysis framework which would better translate the overarching aims of the European Green Deal and deliver impact across Europe.

We recommend the EIB to consider *the costs of climate change in terms broader than “an economic test and carbon price”*. The value to the economy is not purely reflected in a single -carbon price which if used alone cannot reflect the true value of mitigation or resilience measures that also contribute to the prevention of biodiversity loss, or social inequality. A carbon price is a critical lever to drive decarbonization, but it remains insufficient, especially in many harder-to-abate sectors of the economy. In those sectors, climate-related transformations are more likely to be driven by the rapid pace of technology changes, shifts in consumer behaviour, new business models-related to regulations such as lifecycle carbon emissions standards or clean fuel mandates. The EIB's economic analyses would need to account for those non-price drivers to accurately assess commercial viability of investments in regions heading towards net-zero emissions. Therefore, a better alignment between regulatory pressures, stress testing, and the pricing of carbon with other externalities will be essential if the EIB is to become a true Climate Bank.

In addition, to align with the Paris Agreement and the Sustainable Development Goals, we recommend the *application of the principles of the EU taxonomy applied in the Technical Expert Group on Sustainable Finance's Recommendations to the European Commission*, which outline an approach for considering target emissions reductions and do no significant harm to five other environmental objectives and social objectives.

### **3. Definitions used to track climate action and environmental sustainability target requires a robust approach to do no significant harm**

It is essential that the EIB defines robust, clear and ambitious criteria for all sectors and it is recommended that these criteria ***build on the final technical taxonomy report of the Technical Expert Group on Sustainable Finance in their Recommendations to the European Commission***. For example, in the case of the transport and aviation sectors, the latest position of Climate Bank Roadmap should be improved to reflect the expert group's recommendations. It is important that the approaches taken are consistent with existing EIB financing instruments such as InvestEU which, for instance, does not invest in motorways. As a climate bank, the EIB is recommended to consider the issue of mobility not in terms of assumptions linked to the increase in vehicle or transport use, but rather based on a vision that assumes the need for inter modal mobility can be addressed in innovative ways. COVID-19 has shown us all the power of online interaction and airlines are already assuming that travel will not resume to a BAU growth pattern. Vehicle use and airport infrastructure demand is likely to change and such change should be welcomed and fostered through the financing of an enhanced inter modal system that is both zero carbon and optimised.

### **4. Collaboration**

The EIB is one of the most powerful EU financial players, however, the EIB will need to collaborate to deliver the transition that Europe needs to meet its ambitious green deal targets. The roadmap would be strengthened if it ***outlined of areas for collaboration and engagement*** in the areas where the EIB will be actively working to interact with other financial players in particular between the EU's financial and political institutions as well as with the private sector and civil society. Regular surveys demonstrate that key stakeholders across private finance – shareholders, asset managers, lenders, insurers, venture capital firms – have a growing understanding and appetite to invest in the transition of the European economy in line with the Paris Agreement. However, investments in new technologies, as-yet-unproven business models and economic activities which have a limited track record entail a level of risk that most investors are unable to absorb alone. The EIB's financing will be critical to crowd in these larger pools of capital to the benefit of the European economy. At a time of increasing nationalism, efforts to promote multilateral collaboration are needed more than ever.

May we therefore thank you once again for your incredible leadership at this important time in the history of humankind. We are at your disposal for any future collaboration or knowledge exchange.

With warm regards,

**Sandrine Dixson-Declève, Co-President of the Club of Rome**

**Felicity Spors, Head of International Affairs, Climate KIC**

**Faustine Delasalle, Director, Energy Transitions Commission**