

IOGP response to the EIB Group's Climate Bank Roadmap 2021-2025

Support for low-carbon development:

Outside of the energy sector, what type of financing and advisory activities should the EIB Group prioritise to most effectively support the transition to low carbon development?

Outside of the energy sector, the EIB should focus its financing activities on the low-carbon transition of European industries. As recognised by the European Commission's Communication "*A New Industrial Strategy for Europe*", EU industry will play a crucial role to meet the climate targets while contributing to building a prosperous and sustainable economic future, especially in the economic recovery after the COVID-19 crisis. In particular, the EIB should focus its financing activities on early-stage, pre-commercial technologies enabling the industrial transformation, such as Carbon Capture Use and Storage (CCUS), hydrogen solutions, renewable and decarbonised gases (e.g. bio-methane, blends of gases). Natural climate solutions and the development of high quality, verifiable offset markets provide another opportunity for EIB support. Transition technologies using natural gas should not be overlooked. Facilitating the transition of companies to less carbon-intensive activities and promoting natural and technological low and negative emissions opportunities should be priorities of the EIB Climate Bank Roadmap 2021-2025.

Deploying CCS as a large-scale solution is considered integral to reaching climate neutrality, as acknowledged by the IEA, the UN IPCC in its 1.5°C Special Report and the European Commission in its Communication "*A Clean Planet for All*". Independent experts find that CCS is critical to successfully achieve carbon neutrality and to do so at a significantly lower societal cost. CCS is particularly vital to lower emissions of industrial processes that are difficult to electrify. CCS can help minimise the carbon footprint of energy-intensive industries such as the steel, cement, refining, and chemical sector, and help retain their role in a lower carbon EU economy. Some techniques enable capturing CO₂ released by industrial processes and convert them into valuable applications (e.g. construction materials, raw materials for the chemical industry). This way, CCU can contribute to a circular economy subject to a lifecycle analysis and clear carbon accounting rules.

Developing CCUS is more than a climate policy, it is an industrial policy: creating a large scale CO₂ transport network and disposal facilities would allow the EU to take global leadership in retaining energy-intensive industries while attracting new ones. Further, it would enable this critical technology to be recognised as future-proved and exported to support scaled commercialization globally, which will be needed to achieve ambitious emissions goals. While CCUS technologies are proven and available¹, access to CO₂ transport and storage infrastructure remains a barrier to EU deployment. Funding in this area is critical, in particular via research projects that could focus on cost-cutting and optimisation of regional and cross-country CO₂ transport via ships and pipelines to storage locations. Moreover, CCUS can provide significant value for the economy in Europe.

¹ <https://www.oilandgaseurope.org/news/map-of-eu-ccs-projects/>

CCUS also enables growth in the production of clean/low-carbon hydrogen. Today, hydrogen is produced at industrial scale by methane reforming used to separate the carbon and hydrogen contained in natural gas. With CCS, CO₂ emissions from the process are captured. Hydrogen from natural gas with CCS has the potential to provide significant volumes of low-carbon energy to the EU, enabling the infrastructure development necessary to integrate a growing share of green hydrogen produced with renewable electricity. Clean/low-carbon hydrogen will enable the industrial transition by providing feedstock to the chemical industry and a clean heating source for energy-intensive industrial processes. Moreover, there is potential for 150.000 directly and indirectly linked jobs in Europe in 2050 that are linked to CO₂ capture, transport and storage². **CCS in Europe can also potentially support the development of a hydrogen economy which could provide up to 5.4 million high-skilled jobs by 2050³, as well as the retention of existing jobs in energy-intensive industries⁴.**

EIB financing and advisory policy should seek to cover a comprehensive scope of transition technologies and activities. EIB support should be fully transparent to the public and should focus on encouraging the most efficient and cost-effective mitigation solutions, particularly early-stage, pre-commercial technologies.

Financial tools as decarbonisation strategy facilitators will be most effective and sustainable in the innovation domain. Thus, we recommend the EIB Group to set the financial support framework for innovative projects (including infrastructure) based on decarbonised or low-carbon/low-emission fuels, such as hydrogen, biogas and blends of gases for electricity and heating generation (including CHP). EIB financing and advisory schemes for gas Projects of Common Interest, that increase security of supply and diversification of routes, sources and suppliers as well as increase interconnectivity, should be sustained.

Support for client's decarbonization and climate resilience strategies:

What type of financing and advisory activities should the EIB Group prioritise to support climate resilient development?

Industry is one of the largest emitters of greenhouse gases (GHG), representing almost 30% of global emissions⁵. It is therefore crucial that conventional industrial development patterns be transformed to lower their carbon emissions, while also protecting against economic leakage, with a detrimental impact on the EU economy.

The role of industry is recognised by the 2030 Agenda, and particularly by SDG 9: *"Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation"*. Additionally, shifting to low emission and climate resilient pathways falls neatly within SDG 13: *"Take urgent action to combat climate change and its impacts"*. This emphasises the need to transform industry to become climate resilient, and the EIB Group could play a role in this exercise.

Enhancing capacity building and knowledge management for climate action could help to increase the ability of individuals, organisations and countries to minimise the impact of climate change for industry. In this context, we recommend the EIB Group to focus on the following matters:

- How to support early-stage, pre-commercial emissions abatement technology development, transfer and deployment at scale. This is essential for cleaner and more efficient industrial production.
- How to foster innovation, entrepreneurship and synergy with academic and science circles.

Given the importance of creating a resilient industry, the EIB should prioritise its financing and advisory activities on the development of low-carbon technologies, such as renewable and decarbonised gases, CCUS, clean/low-carbon hydrogen from natural gas using CCS or pyrolysis and renewables. These technologies could be further exported from the EU to other regions.

² SINTEF (2018): *Industrial opportunities and employment prospects in large-scale CO₂ management in Norway*. Available from: https://www.nho.no/contentassets/e41282b08ceb49f18b63d0f4cc9c5270/industrial-opportunities-ccs_english.pdf

³ FCH JU (2019): *Hydrogen Roadmap Europe*. Available from: https://www.fch.europa.eu/sites/default/files/Hydrogen%20Roadmap%20Europe_Report.pdf

⁴ High-Level Group on Energy-intensive industries (2019): *Masterplan for a Competitive Transformation of EU Energy-intensive Industries Enabling a Climate-neutral Circular Economy by 2050*. Available from: <https://ec.europa.eu/docsroom/documents/38403>

⁵ https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc_wg3_ar5_chapter10.pdf



As for CCUS projects, we would like to offer the following recommendations based on the experience on the NER300 programme and the ETS Innovation Fund:

- The priority should be given to large projects with a vast CO₂ abatement potential. For the funding programmes to be more effective, they should be focused on fewer impactful projects rather than spreading funds across too many projects.
- There should not be restrictive funding limits to a specific project.
- EIB financing should be made compatible with other EU funding programmes to be able to cumulate different funding options.
- International cooperation should be bolstered to allow cross-learning with projects outside the EU. EIB funding should also be eligible for projects that are developed partially or entirely outside the EU.
- The level of funding support for all technologies should mirror the development of technologies as they progress along the technology learning curve, i.e. support level should be adjusted downwards as technologies become more mature and more economical.
- EIB's funding could consider both CAPEX (capital costs) and OPEX (operating costs). In particular, it should be designed in a way which allows adjustments when the OPEX estimate does not match with the OPEX assumption at the time of the application.

CCS should also be developed in power generation, in which it can substantially decrease emissions from gas power plants, meeting the threshold of 250 gCO₂ per kWh established in the EIB Energy Landing Policy. Low-carbon, flexible electricity from gas-fired power plants with CCS will be an essential complement in a resilient energy system with a growing share of variable renewables.

How and to what extent should the EIB Group help its clients transition to a low carbon and climate resilient pathway, in particular those that are highly exposed to the transition and physical risks (both acute and chronic) associated with climate change?

Promoting the transformation of companies with a high-carbon footprint to less carbon-intensive activities should be a priority of the EIB Climate Bank Roadmap 2021-2025. Focusing on the most sustainable companies and sectors, without providing incentives to the companies that emit the most GHG emissions to change their activities, could have a limited impact on the transition. The EIB, therefore, should focus on “transitional activities”, which help economic activities for which there is no immediate low-carbon solution to lower their emissions, contributing to reach the objective of climate neutrality. To this end, the EIB should launch a programme of “transition financing”, which would allow industries with high GHG emissions to raise capital for activities that will decrease their emissions. Such an inclusive approach would encourage companies to take important steps to match financing activities with climate-related commitments. The transition financing instruments should finance or refinance projects that are intended to enable significant improvements towards decarbonisation, reduction in environmental footprint, or improved resource efficiency in key sectors of the economy. These instruments would need to be structured in a flexible way to guarantee inclusivity, which is necessary to trigger significant inputs to the transition goals.

Leaving no one behind:

Which type of climate action and environmental sustainability projects are likely to have strong social benefits?

Support for early-stage, pre-commercial emissions abatement technologies such as CCUS can enable the EIB to play an outsized role in both EU and global decarbonisation. As expressed in the principle of “just transition” adopted by the EU, projects that facilitate the transition of energy-intensive sectors while preserving local economies and jobs are likely to have substantial social benefits. Moreover, projects can increase their social benefits by taking into account the different specificities of the countries and regions in which they are developed. Each country has a unique and diverse energy system as a starting point, with different energy resources, demand dynamics, technologies, stock of capital, geographies and cultures. Projects should not only deliver GHG emission reductions, but also do that in a transparent, cost-efficient



way while contributing to energy security. Moreover, projects can create social value by generating and growing economic opportunities for the local population. The EIB could improve the social angle of projects by asking the companies that obtain financing instruments for details on the engagement strategy with stakeholders and the local population.

Leveraging private sector finance and promoting financial innovation:

What new types of financing instruments should the EIB Group seek to develop to have a high catalytic effect on other sources of public and private sector finance?

The EIB should aim at boosting the real economy activities, in particular in the post-COVID 19 era, through increasing access to finance to enterprises and industry that create value and jobs in the EU. Innovative financial instruments can attract funding from other public or private investors in early-stage, pre-commercial technologies or natural climate solutions perceived as risky by investors, but which can have a significant catalytic effect. By covering part of the risk associated with these projects, the EIB can reassure other investors and encourage them to channel investments as well. A catalytic effect on investments can also be stimulated by allowing EIB financing to be combined with other international funding programmes for projects having a global scope. The EIB should use a range of financial instruments, such as:

- participation in equity (risk capital),
- guarantees to local banks lending to final beneficiaries,
- risk-sharing with financial institutions to boost investment in large infrastructure projects.

Measuring the long term effect of EIBs operations:

How can the impact of climate action and environmental sustainability activities be best measured?

The most important principle that should be taken into account when assessing the impact of climate action and environmental sustainability is technological neutrality, minimising market distortions and focusing on early-stage, pre-commercial technologies that can potentially reach commercialisation at scale. Explicit preferences should not be given to any specific technology or type of project. Instead, the climate impact should be measured based on carbon abatement costs and the full potential of GHG emission reductions taking into account the scalability of a given technology, its multiple potential application, its applicability of learnings to other projects and cross-sectoral spill-overs. Projects should be assessed with a Life Cycle Analysis (LCA) approach that accounts for all aspects of production, use, and disposal. The EIB should ensure its assessment and approach is transparently and clearly communicated to the public.