

European Investment Bank lending in the transport sector - Overview

For more detailed information and references see the full report entitled:

Lost in Transportation: The European Investment Bank's bias towards road and air transport
http://bankwatch.org/documents/lost_in_transport.pdf



The European Investment Bank (EIB), the European Union's 'house bank' and the world's largest public bank, gives loans and guarantees on a not-for-profit basis using funds contributed by member states. Between 1996 and 2005 the bank lent over EUR 112 billion for transport projects. This factsheet gives an overview of the EIB's transport investments and makes recommendations for decreasing their negative impacts.

EIB transport priorities in theory

EIB investments should follow the EU's priorities for the transport sector, which are mainly set out in the 2001 White Paper "European Transport Policy for 2010 – Time to Decide". The most environmentally important aims in this document are:

- internalising the external costs of transport
- decoupling transport growth from GDP growth
- shifting the balance between modes of transport
- and controlling the growth of aviation.

The White Paper clearly emphasises privileging the modes with the lowest external costs (rail and urban public transport) and on limiting the growth of transport as a whole, particularly aviation.

The EIB also has to take account of environmental policies such as the 6th Environmental Action Plan (6th EAP). In relation to transport, the 6th EAP states that:

"Structural changes in the transport sector to address transport demand, promote a shift to railways, waterways and public transport and improve transport efficiency are of primordial importance ... Alternative fuels and appropriate engine technologies offering higher efficiency or low or zero carbon emissions need to be researched and exploited ... Attention will be given to aviation emissions which are expected to grow by almost 100% from 1990 to 2010."

However the EIB's website names the current priorities affecting the transport sector as:

- Economic and social cohesion in the enlarged EU
- Development of Trans-European (TEN-T) and Access Networks
- Support of EU development and cooperation policies in partner countries
- Environmental protection and improvement, including climate change and renewable energy

The most progressive aims of the White Paper and 6th EAP are missing and TEN-T has been singled out in isolation from EU transport and environmental policy as a whole. The priorities are very broad, and can be used to justify almost any project. **The EIB lacks an operational policy for transport, and has no proper environmental policy** (only an 'environmental statement' that lacks sufficient operational guidelines).

And reality...

The EIB's transport lending has mainly been client-driven, and it has not ensured the balanced implementation of the EU's transport policy. Due to the EIB's lack of strategy there have been a string of single projects, and their connection to EU policy has been a tick-box exercise rather than a matter of prioritising. Even the EIB's own evaluations have brought this up:

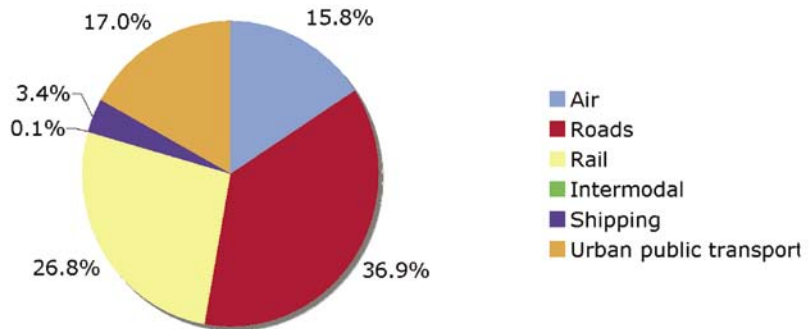
"...the evaluation did not find evidence of the Bank seeking to use its selection policy to maximise either project Relevance or the contribution to EU objectives; an issue which has been identified in previous evaluations."

An analysis of the EIB's transport projects 1996-2005 shows that large infrastructure, such as TEN-T projects, has taken priority:

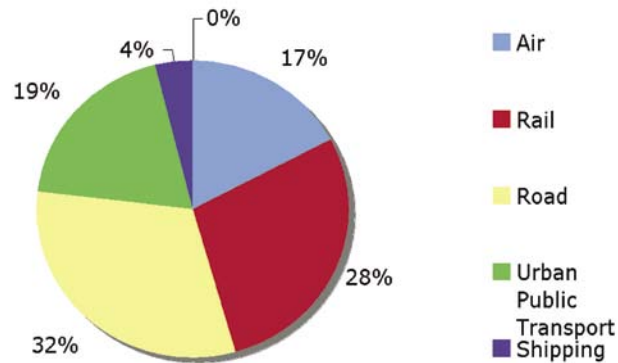
- There are no projects visibly limiting transport demand, eg. pedestrian and cycling facilities or low-transport production models eg. local food schemes.
- Much more has been spent on roads than railways.
- Nearly as much financing has been devoted to aviation as for urban public transport.
- No visible efforts have been made to limit the growth in demand for air transport.

Between 1996 and 2005 the EIB lent:
 EUR 16 billion for aviation
 EUR 37.3 billion for roads
 EUR 27 billion for rail
 EUR 17.3 billion for public transport
 EUR 95 million for inter-modal transport
 EUR 3.4 billion for shipping

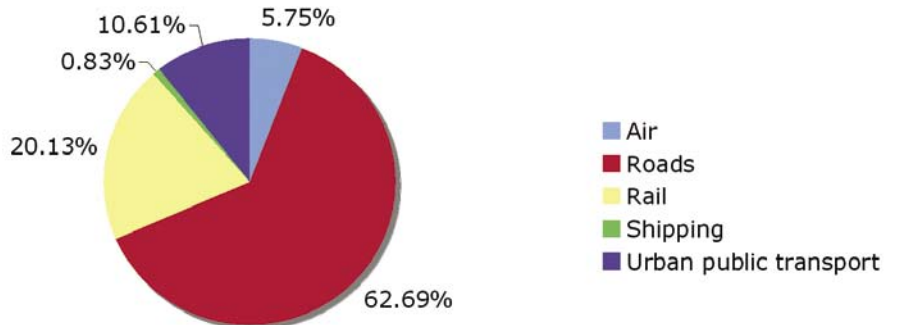
EIB worldwide transport investments 1996-2005



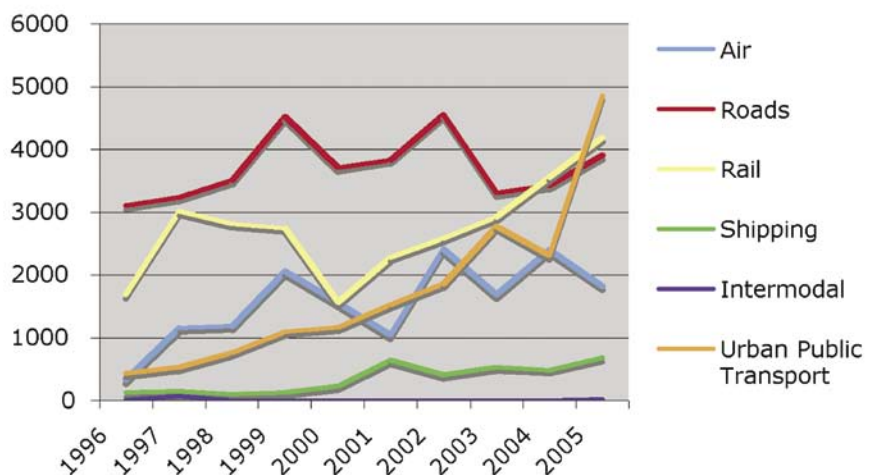
EIB EU-15 transport investments 1996-2005



EIB transport investments 1996-2005 in central and eastern Europe



EIB transport investments by mode 1996-2005



Additionally the Bank lent EUR 9.6 billion for car manufacturing and EUR 1.5 billion for aircraft manufacturing.

The investment pattern varies by region. Even in the EU, where it is most balanced, financing for roads has been higher than for any other mode, and almost as much has been invested into aviation as into urban public transport.

Outside of the EU, the modal shift aim has been reflected even less. **In Central and Eastern Europe around 62.69% of EIB transport investment has been for roads**, with around two-thirds for motorways.

This is particularly questionable considering that CEE countries previously had systems in which public transport had the largest share. Instead of improving these networks, governments, supported by the EIB, are encouraging road traffic. At the country level little effort is made by the EIB to support a balance of modes, eg. in Macedonia only road projects have been supported.

EIB lending trends

Between 1996-2005 there were some positive trends in the EIB's investments, such as a dramatic increase in lending for urban public transport and an increase in financing for rail. However, **as long as financing for roads and air transport are maintained or increased, rail and urban public transport will be disadvantaged as air and road transport do not pay their real costs.**

Within modes, financing has been distributed as follows:



→ 70% of worldwide road loans went to motorways. Almost all of these projects entailed either new construction or expansion. A further 5% went for bridge projects and 4% for tunnels, and only 21% was allocated to 2nd and 3rd class roads.

→ In urban public transport, 62% went to metro systems, with 38% for other transport modes. It is not clear how much investment, if any, has been devoted to pedestrian, park-and-ride or cycling infrastructure.

→ For airports, excluding air traffic management projects, 54% of financing went to hub airports while 46% went to national or regional airports. Most of the projects involved an expansion of capacity, and therefore climate change impacts (see separate fact sheet).

→ For rail, 35 high-speed rail projects received 41% of the financing while 115 normal rail projects received 51% of the rail financing (the remainder went for tunnels and road/rail bridges). Cross-border railway infrastructure and management projects have infrequently benefited from the EIB's loans. These should be priority areas.

In industry, car manufacturing clearly dominates the EIB's lending, with 31% of EIB indus-

try loans worldwide supporting car manufacturing – much more than for any other sector. This percentage rises to **63% in Central and Eastern Europe**, and in Czech Republic, 98% of EIB industry investments between 1996 and 2005 were for the car industry.

The EIB's neglect of the White Paper and 6th EAP

The graphs above show that the EIB has almost exclusively concentrated on upgrading and building new infrastructure without sufficiently taking into account the aims of the White Paper.

Internalising the external costs of transport:

The EIB has reinforced the artificially rapid expansion of road and air transport caused by road and air paying few of their external costs. Though the EIB cannot internalise transport's external costs in general, it should avoid supporting expansion of the modes with high external costs and instead concentrate on rail, urban public transport, walking, cycling and inland waterways.

Decoupling transport growth from GDP growth:

The **'Predict and provide' ideology still dictates most EIB transport investments**, and the bank has made no commitment to limit the growth of transport or avoid investments in the least sustainable modes. In addition there have been toll infrastructure projects, such as the Oresund Bridge (Sweden-Denmark) and Lubeck Herrentunnel (Germany), for which demand has not been as high as expected and efforts have been made to increase traffic in order to increase income, thus directly promoting traffic growth.

Shifting the balance between modes of transport:

The EIB has supported road transport more than public transport, so **it has not contributed to progress in rail and urban public transport relative to road transport**. Although the TEN-T programme includes many rail projects, in 2004 the European Commission estimated: "For road, less than 4% of the length of planned links will still not be completed by 2010, and for rail up to 50% of the length of planned links will remain uncompleted".

Controlling the growth of aviation:

The EIB denies that controlling the growth of aviation is a policy objective, instead aiming to "minimise its environmental impact". However, **the bank's airport financing has involved large expansions in capacity, and therefore noise, pollution and CO2 emissions**. (See Factsheet on climate change). For airlines, EIB project summaries show that fleet expansion has been financed, but this has not been possible to quantify.

Recommendations:

The EIB needs to dramatically improve its project selection procedures to transform itself from a client-driven bank financing a series of transport projects into a truly policy-driven bank that succeeds in balancing the different transport policies of the EU, fully integrates environmental considerations into transport financing and contributes to developing more sustainable transport:

Portfolio related recommendations:

1. The EIB must halt investments into aviation.
2. Investments in rail, urban public transport, and inter-modal transport must continue to increase and must make up the vast majority of the EIB's transport investments in each country.
3. Maintenance or safety improvements should become a priority for the EIB financing in the road sector. By 2010 the share of road transport investments in the EIB portfolio should be halved to make space for the development of sustainable transport modes.
4. Support to projects limiting transport growth needs to be stepped up.
5. Loans should only be given to the car industry for R&D for more efficient, cleaner and safer technologies, not for manufacturing.

Process related recommendations:

6. The EIB should prepare, with public consultation, its own transport sector operational policy.
7. Project eligibility criteria must promote environmentally acceptable transport with low climate impacts.

8. The EIB needs to set year-on-year limits and targets for reductions in the greenhouse gas emissions from its projects.
9. The EIB must ensure the transparency of its projects and strong public scrutiny over them, particularly in public-private partnership projects.
10. The EIB must develop criteria for excluding underperforming companies and those convicted of corruption.

Project appraisal related recommendations:

11. Support from the EIB, especially for TEN-T projects, must be conditional on the existence of a strategic environmental assessment (SEA) of the plans and programmes containing the projects.
12. The EIB needs to be much more rigorous in its verification of project promoters' claims regarding environmental impacts and public participation processes.
13. In PPP projects, a thorough analysis needs to be made of whether a PPP represents the best value for money compared to public procurement - public access to such analyses is a must.
14. The EIB must be more rigorous in applying EU standards in projects outside of the EU.
15. The EIB needs to interpret Article 18 of its statute literally, ie. it must not finance any project that could be financed by other sources at reasonable rates.

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