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P.R.China

Energy Sector Strategy Discussion Draft

March 6th 2017

Dear ladies and gentlemen,

we would like to thank you for the opportunity to provide input to the AIIB Energy Sector Strategy. We believe that this can be a helpful process, if the input is taken into account and given honest and serious consideration.

The key concern that motivates our submission is that where we are right now in terms of the climate crisis and emissions does not allow for a continuation of fossil fuel investments, and the AIIB should not be financing any fossil fuel related projects. If it does, it will be part of the biggest problem of our generation: overcoming the fossil fuel age and the climate crisis. Being green in the 21st century necessarily means promoting only clean energy and no fossil fuels.

Allow us to detail a number of issues where we believe the current draft could be improved to make for a much better Energy Sector Strategy.

1. **The internationally agreed climate target.** The bottom line of the internationally agreed climate target are not the NDCs, but the temperature target of 1.5°/well below 2°. The Paris Agreement explicitly acknowledges the gap between NDCs pledges and what is needed to meet the temperature target. Therefore, the Energy Sector Strategy must be directed towards meeting the temperature target, with NDC implementation as a first step, but always with a view fo going beyond them. The Energy Sector Strategy should provide a frame that is so flexible that it can accommodate the latest science. The carbon budget and overall global decarbonization strategy should be regularly reviewed and updated in the light of the latest science. The IPCC is working on a 1.5°C report right now that will be published in 2018. When that happens, the Energy Sector Strategy should provide mechanisms to immediately adjust the indicators used for evaluating new projects in line with climate science. A number of current literature uses outdated numbers such as a 2° target with a 50% probability (see below). These outdated numbers should not be made the basis of investment decisions and where necessary, the AIIB should commission

its own analysis of what is in line with the Paris Agreement target. The latest research indicates that existing fossil fuel extraction infrastructure will take us beyond the red line established in Paris.¹ The consequence is that no new extraction or transportation infrastructure for fossil fuels should be built.

2. **Energy demand and energy security.** The energy demand that we know today must be differentiated. Today, we have few rich people who have a very high energy demand and use fossil energy for things like private cars which they drive alone, vacation flights, excessive meat consumption and generally consumption of products that are not essential for their well-being. At the same time, the majority of people has a low energy consumption which is mainly directed towards basic needs. These could easily be met with renewable sources, if energy policy was reoriented towards that goal. We have developed the concept of “21st Century Energy Security”² which combines the goals of sustainability/ security of supply, efficiency and prioritization of basic needs and would like to suggest that this provides a clarity that helps distinguish between energy policies and investments that enhance human well-being in a sustainable way and those that do not. We suggest that the priority for financing should be placed on basic needs, second on productive uses and only lastly on “modern society needs” and the priority should be again on meeting those basic and productive needs with renewable energy sources, because else the satisfaction of basic needs and economic development are sitting on a temporary, unsustainable foundation.
3. **The Climate Test.** “Investments that are demonstrably compatible with internationally agreed targets”. We welcome this principle and would like to suggest ways to operationalize it. A Climate Test has already been proposed³ and the methodology of applying it to energy investments should be refined by the AIIB to become the cutting-edge bank in terms of climate-friendly investment. The main question of the climate test is how the lifetime emissions of the project fit into a 1.5° carbon budget. The most up-to-date analysis suggests that the post-Paris carbon budget is just 472 Gt CO₂,⁴ providing for less than 20 years of current emissions, let alone rising emissions as projected after the Paris Agreement, based on the sum of NDCs.

There may be different appreciations of what the global carbon budget and national decarbonization strategies should look like after Paris, and the AIIB should engage constructively in

1 http://priceofoil.org/content/uploads/2016/09/OCI_the_skys_limit_2016_FINAL_2.pdf

2 <http://leave-it-in-the-ground.org/wp-content/uploads/2014/05/21st-Century-Energy-Security.pdf>

3 See <http://www.climatetest.org/wp-content/uploads/2016/02/ClimateTest2-23-16.pdf>

4 Kühne, Kjell (2016), [The global Carbon Budget after the Paris Agreement](#), Leave it in the Ground Initiative (LINGO).

that discussion with member states. This discussion will be highly beneficial for harmonizing energy and climate policies at the national level. As a suggestion, the AIIB could make support for any fossil fuel project contingent on a national-level decarbonization strategy that shows the compatibility of the life-cycle emissions of the project with the national strategy and the global carbon budget post Paris.

4. **Zero Carbon Target.** Our reading of climate science and understanding of the Paris Agreement is that while political will is not sufficient at this point, we will need to transition to a zero carbon world economy before 2050, in order to meet the ambition spelled out in the Paris Agreement. We therefore suggest that the AIIB Energy Sector Strategy be guided by a clear, time-bound zero carbon energy target. Since energy systems do have a decade-long inertia, in order to have a zero carbon energy supply by 2050, investments need to be zero carbon about 3 decades before that, starting now.
5. **Correctly evaluating the global warming potential (GWP) of gas.** There has been some confusion about the “climate benefits” of natural gas. Because we are already witnessing the tipping over of certain tipping elements of the global climate system, we cannot account for emissions that cause warming now as if they would do so over a much longer time frame. The assumption that methane emissions associated with natural gas extraction are 21 times more potent than CO₂ emissions is out of date. On a ten year time-scale, methane is over one hundred times more potent than CO₂ in heating the planet and even on a 20 year time scale the supposed climate benefits of natural gas over coal and oil disappear.⁵ We urge the AIIB to make sure that the methodology of evaluating the climate impacts of natural gas projects (and associated leakages) makes a point of using the correct, up-to-date GWP numbers.

Some further comments on the text:

1. We congratulate you for mentioning climate change impacts in this strategy! We are now in a situation where ten thousands of people die and millions get displaced every year because of climate change. For making a contribution to overcoming the climate crisis, “reduction of carbon intensity of supply” is not an adequate goal. It would allow for an increase in overall emissions and breaking the Paris climate targets, while at the same time successfully achieving the “low-carbon” goal! In order to avoid run-away climate change and having clarity about whether or not we are moving in the right direction, the goal should be an ABSOLUTE reduction of CO₂ emissions on a global level and per capita emissions on a country level. Both of these must be trending towards zero, not upwards. Indicators could be progress towards a decarbonized global economy or a national decarbonization strategy, as suggested above.

⁵ <http://www.rosalux.eu/topics/social-ecological-transformation/methane-emissions/>

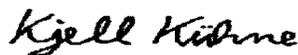
Merely reducing the carbon intensity of energy supply could be like giving energy access with one hand and taking lives and livelihoods with the other. We must be bold and ambitious: zero carbon energy security is the necessary goal today (see the suggestion on 21st century energy security above), and the AIIB must be a tool to meet that goal. Else it will not be a green bank. It will be a brown bank and part of the problem of pushing us further into climate chaos.

2. We suggest to edit from the document any references to “low-carbon” where those could be understood as a goal. With the urgency of the global energy transition to zero carbon, low-carbon cannot be part of the goal, only zero carbon.
3. The section on fossil fuel power generation investments speaks of an erroneous understanding of climate science. "The level required to reach climate change stabilization in the next two decades" cannot be continued investments in fossil fuel generation. Climate stabilization is only possible with basically zero emissions. The source of that misunderstanding seems to be the IEA report on World Energy Investments 2016, which is not publicly available, but from the Executive Summary it seems that their scenario is based on 2° warming, without mentioning the probability of staying below 2° (50%?, 90%), and not the new target of the Paris Agreement of 1.5°/well below 2°. A 50% chance of staying below 2° has nothing to do with climate stabilization, instead it means gambling with run-away climate change. The UNFCCC member countries have rightly decided in Paris to not allow this dangerous gamble. It is worrying that this gamble might come in again through the back door of IEA publications into the AIIB Energy Sector Strategy which is supposed to strengthen climate efforts, not undermine them.

We believe that it is high time to stop investing money in fossil fuels. They are not a 21st century technology. The AIIB as a green bank should part with that 20th century technology and become a leader of the energy transition.

We thank you once more for opening the opportunity for providing input and hope that our comments may prove helpful and guide you in the elaboration of a better final Energy Sector Strategy that does much more to address the climate challenge.

With kind regards



Kjell Kühne

Director

Leave it in the Ground Initiative (LINGO)