

Formal Consultation Response from Biofuelwatch to the Scottish Government Consultation on the Scottish National Investment Bank

We welcome the fact that the Bank is to be set up as a public sector institution in perpetuity. We believe that a National Investment Bank can play an important role in facilitating developments which would not otherwise be attractive to private investors, but which would improve quality of life, public health and the natural environment while helping to rapidly reduce greenhouse gas emissions.

In the energy sector, the Bank can and should help fund wind, solar and wave power as well as energy conservation and efficiency measures.

However, we are very concerned that the proposed vision focuses too heavily on economic growth and too little on securing social and environmental benefits. A reference to a low-carbon economy by itself, although welcome, does not guarantee that the Bank would have to preserve or enhance biodiversity and public health or contribute to reducing overconsumption of resources.

We believe that the Bank's lending should be entirely Mission-based, i.e. that it should be done entirely for public benefit. It is vital that the Bank has strict ethical lending criteria. We are concerned that the consultation paper refers to the "Green Purposes" of the Green Investment Bank (GIB) set out in the Enterprise and Regulatory Reform Act (2013) as a precedent for the approach proposed for the Scottish National Investment Bank. The GIB's Green Purposes set out what we believe must be absolutely minimum standards for any public lending:

- "1. The reduction of greenhouse gas emissions
2. The advancement of efficiency in the use of natural resources
3. The protection or enhancement of the natural environment
4. The protection or enhancement of biodiversity
5. The promotion of environmental sustainability."

We believe that protection of public health, including through clean air, must be included in this list. Furthermore, social and not just environmental standards need to be adopted and enforced.

However, each GIB investment was required to meet only one of those five standards. This means that a development deemed to reduce greenhouse gas emissions could be inefficient and cause harm to biodiversity, yet nonetheless attract GIB funding. This has had very real adverse consequences: The GIB's first large loan, of £100 million (subsequently reduced to £50 million at the borrower's request) went to Drax Plc, to help convert three coal units to biomass. The then Secretary of State, Vince Cable, publicly stated that the GIB's investment allowed Drax power station to avoid having to close under the Industrial Emissions Directive. This suggests that the GIB facilitated the burning of many millions of tonnes of coal in the other three units.

Drax has become the world's single biggest wood burner and importer of wood pellets, burning more than the equivalent of the UK's total annual wood production. Much of this wood has been shown to come from the

clearcutting of highly biodiverse forests in the southern US. However, under its Green Purposes, the GIB was not required to take biodiversity impacts into account.

Subsequently, the GIB helped to mobilise significant sums of investment to allow a series of new waste incinerators (including gasification plants) to be built across of the UK, some of them with less than 25% conversion efficiency. According to an analysis by Eunomia, published in 2017: *"With more facilities still in the construction pipeline, the report forecasts that the UK's supply of [mixed waste] treatment capacity will exceed the available quantity of residual waste in 2020/21. Were all facilities to operate at full capacity, together they would limit the UK's recycling rate to no more than 63%."* However, under its Green Principles, GIB did not have to take account of either energy conversion efficiency or efficient use of natural resources.

However, ethical principles on their own are not sufficient. A rigorous Environmental and Social Risk Management System is required to enforce them. The Bank must have been set up with full regard to the six principles set out in the Collevocchio Declaration drawn up by civil society organisations in 2003:

banktrack.org/download/collevocchio_declaration/030401_collevocchio_declaration_with_signatories.pdf . For guidance about how to implement those principles, published by BankTrack, please see:

banktrack.org/download/the_dos_and_donts_of_sustainable_banking/061129_the_dos_and_donts_of_sustainable_banking_bt_manual.pdf .

In addition to broader ethical criteria, legislation should categorically rule out any Bank investments in defined high-carbon, polluting developments. Those must include developments which involve fossil fuel extraction, fossil fuel refining and fossil fuel energy generation, as well as nuclear power and biofuel production from crops or trees. Bioenergy derived from forest wood must not be supported either by the Bank, due to the increasingly robust scientific evidence that it is incompatible with the Paris Agreement goal of stabilising global warming at 1.5 degrees. As a letter signed by 800 scientists earlier this year states: *"Even if forests are allowed to regrow, using wood deliberately harvested for burning will increase carbon in the atmosphere and warming for decades to centuries – as many studies have shown – even when wood replaces coal, oil or natural gas. The reasons are fundamental and occur regardless of whether forest management is 'sustainable'"*.

(dropbox.com/s/l8sx5bl0h02x395/UPDATE%20800%20signatures_Scientist%20Letter%20on%20EU%20Forest%20Biomass.pdf?dl=0).

In conclusion, we believe that the Bank's ethical principles and its environmental and social risk management system must be subject to participatory public consultation, ensuring that the views of communities and civil society organisations are heard and taken into account. Furthermore, civil society organisations and trade unions need to be represented in the Bank's governance structure.