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Mounting violations at Cairo refinery project seeking EBRD finance

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▲ Graffiti in the ERC project area, saying in Arabic "Enough corruption", "No to the factory of death".

A USD 3.7 billion refinery expansion project inside urban Cairo attracting international public development finance, including potentially from the EBRD, is also attracting major controversy as a result of forced evictions, pollution and concerns about the involvement of financial entities linked to the deposed Mubarak regime.

The Egyptian Refinery Company (ERC) project is a multi-stakeholder, classic public-private partnership (PPP). Located 40 kilometres from the centre of Cairo, it is currently one of the largest investments in Africa.

The confirmed project financiers and partners include the European Investment Bank, the International Finance Corporation, the African Development Bank, the government's Cairo Refinery Company (CORC), and the Egyptian General Petroleum Corporation. Further ERC shareholders include Citadel Capital, a financing institution associated with Mubarak-era elites, and the private equity fund EFG Hermes, which is embroiled in corruption allegations involving Hosni Mubarak's sons Gamal and Alaa.

Last month, a group of European and Egyptian NGOs launched the "Desperately Seeking Gamal' appeal that seeks to freeze the now imprisoned Gamal Mubarak's assets in Virgin Islands, including his stake in EFG Hermes.

A potential EBRD USD 40 million involvement in the project has been pending approval from the bank's board of directors for some time, and a decision had been expected by July. At the time of going to press, however, the EBRD had disclosed to civil society groups that the project was on further hold, though no timeframe was specified.

A central complaint being levelled at the project by Egyptian and international NGOs is that the financiers' involvement is based on a five year old environmental and social Impact analysis, carried out by ERC and its consultants, that does not comply with the minimum standards of the international financial institutions. Nor does the analysis take into consideration the drastic changes that have taken place since the studies were concluded in 2008-2009 – including egregious activities ongoing in the development of the refinery expansion.

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Ukraine's nuclear expansion plans under fire from UN body, EBRD 'safety loan' called into question again

In a landmark ruling laid out in a March 25 letter to the Ukrainian Ministry of Environmental Protection, the Implementation Commission of the United Nations Espoo Convention has deemed that Ukraine's plans to expand the lifetime of its old nuclear reactors is in breach of the convention – the same convention that Ukraine ratified in 1999. Ukrainian campaigners believe that this should lead the EBRD to halt the disbursement of a EUR 300 million 'nuclear safety' loan agreed with Ukraine's state nuclear operator just days prior to the issuing of the Espoo verdict

According to the Espoo Implementation Commission, the Ukrainian authorities have proceeded with the life extension programme first of all without the preparation of an environmental impact assessment (EIA). Such an assessment, commonly used in major infrastructure projects, would weigh the likely project risks and provide guidance on how to mitigate these risks. This verdict has confirmed that nuclear power plant lifetime extension programmes, not only the construction of new plants, should be the subject of an EIA. The absence of such an assessment is shocking given the high risks involved in the nuclear industry.

The Espoo Commission has also raised with Ukraine its failure to consult the extension programme's potential transboundary impacts, as well as alternatives, with neighbouring countries. This is a fundamental requirement of the Espoo procedures, and again Ukraine has been found wanting.

Just prior to having its knuckles wrapped by the Espoo Implementation Commission, the first time that the UN body has reacted in such a way following an NGO complaint (from the Ukrainian environment group Ecoclub Rivne), Ukraine had received

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Violence, and forced resettlement

It is suspected that residents in the project area have been forcibly evicted. A team from the Cairo-based group Egyptian Center for Economic and Social Rights (ECESR) visited the project area in February 2013 and found that residents of Arab al-Hessn, the residential community adjacent to the project areas 'South Plots 1, 2, 3', were forcibly displaced in 2010 by state security police, and they believe the eviction took place in order to allow the expansion of the refinery.

ERC acknowledges that the only communities subject to resettlement were the families of 20 workers living inside project areas 'South Plots 1,2,3', amounting to 107 individuals, and a further four communities of 317 families living opposite the project's 'Laydown area', intended to be used for storage.

According to the 'ERC Area Resettlement Assessment 2009', the 317 families were not in need of resettlement. However, the company's Resettlement Action Plan stated that ERC will take steps to mitigate the economic and social losses of the four communities in question. No details about this compensation have been provided, though, and very little information exists to cast light either on the number of people evicted or on the numbers rehoused in new houses.

What is known is that the resettlement process has been very badly handled, and significant numbers of people have suffered as a result.

Both the relocated community of the laydown area and the forcibly evicted residents of Arab el-Hessn did not receive 'safe ownership' documents for the new blocks. Moreover, there is more than one family per apartment within these blocks, there was no formal or proper allocation of apartments to families, and they were left to sort out the occupation of the apartments on their own, which resulted in inter-community conflict and the use of violence and thugs to secure housing in the new ERC blocks. Finally, the residents were neither consulted nor compensated for the mistreatment and the losses they were subjected to.

Environmental issues

The ERC potential expansion area is located in an already extremely polluted industrial zone, in the middle of a densely populated neighbourhood home to around one million people.

Inhabitants are already suffering from air and water pollution, which exceeds Egyptian and WHO limits. Current pollution comes from the existing CORC project, and thus an expansion will cause an increase in the amount of pollution, even though the environmental and social impact assessment tries to assert the opposite by explaining that modern equipment will be used that will not cause an increase in pollution levels.

Such a claim, however, is erroneous in logic, and simply underplays what a USD 3.7 billion expansion to an already harmful industry will inflict on residents in the area.

Agricultural land and farmers' issues

The expansion of the ECR project is also threatening the agricultural lands located next to the project area. Worryingly, the farmers in the project area were never consulted – they told the ECESR team that they had no idea that the refinery would be expanded, the project had never been presented to them, and that they haven't been informed about the possible harm it may bring to their plantations. Nor have mitigation options ever been discussed with them.

It is worth noting that this agriculture area is owned by the al-Azhar authorities, a top ranking public religious institute in Egypt. Oddly, however, al-Azhar is not mentioned as a stakeholder in any of the project documentation. Other nearby land on the road leading to the agricultural land and to the industrial area is agricultural research land, owned by the Faculty of Agriculture of the al-Azhar University.

The EBRD's involvement in Egypt, human rights and democracy

Today, with widespread documentation of ongoing human rights abuses in the country that some observers deem to be worse than during the Mubarak era, Egypt in no way complies with the minimum principles of democracy and pluralism enshrined in Article 1 of the Agreement Establishing the EBRD. Indeed, since the EBRD country assessment for Egypt, approved on 31 October 2012, the situation with regards to Article 1 has continued to deteriorate. This is especially relevant to Annex 1 of Article 1, entitled "Notional factors and sub-components for the political assessment", specifically point 14: "14. Freedom from harassment, intimidation and torture".

The EIB's involvement in the ECR project, and more widely in Egypt, is also problematic in this regard because, even though the bank does not assess or screen its project in accordance with human rights principles specifically, the EIB refers to itself as the European Union's bank, and hence is responsible for the enforcement of the EU Charter of Fundamental Rights.

Significantly, on March 14 this year, members of the European Parliament called for "withhold(ing) budget support from Egypt" due to human rights violations and bad economic governance, insisting that the EU's EUR 5 billion for the 2012-2013 period be made contingent upon the government's "respect for human rights, democracy and economic governance".

Civil society organisation have already made the above concerns known to EBRD board members during a meeting in Cairo with Egyptian and other stakeholders in September last year. Ignoring these concerns would send a worrying signal about how the EBRD regards CSO concerns and the sincerity of such consultations, not to mention the bank's adherence to its principles.

Egyptian civil society mobilisation against the ERC project

An Egyptian civil society campaign has been launched to campaign against the ECR project. The 'Mostorod Monitor' initiative includes Egyptian human rights oriented NGOs as well as popular grassroots campaigns working with Mostorod residents.

Today civil society rejects the ERC project in full, both because of its problematic PPP status and the human rights and environmental abuses that have marred its development to date, and that look certain to intensify and further impact the entire Mostorod neighbourhood. The generation – reputedly – of only 700 permanent jobs should be weighed against the severe harm likely to result from the tenfold expansion of the existing refinery in such a densely populated area.

Campaigners are calling on the project to be relocated to uninhabited areas. Possible alternative sites are El Sadat new city, located 80 kilometres north of Cairo, and Badr new city, 60 kilometres east of Cairo.

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notification that the EBRD had decided – after months of delay – to extend a 300 million euro loan to Energoatom, the Ukrainian nuclear operator. As part of the deal, a further EUR 300 million is scheduled to come from Euratom, the European Atomic Energy Community, which is still to make a final decision on this loan in the next few months.

In its national Energy Strategy, Ukraine envisages prolonging the lifetime of 12 old nuclear reactors. The Ukrainian authorities have already renewed licences for two units (Rivne 1 and Rivne 2) and are close to prolonging the functioning of a third reactor, the South Ukrainian Unit 1. Yet these ageing reactors had been due to see their operational licences expire by 2012.

In the lead up to the EBRD loan decision, a range of national and international environment groups (including Bankwatch, Greenpeace CEE and Friends of the Earth Europe) challenged the bank's 'safety' narrative, mindful that the EBRD is not mandated to finance nuclear expansion projects. The groups cited an expert analysis published last year that spells out how some technical measures to be financed from these international loans would only be required if the lifetime of the reactors was to be expanded.

Iryna Holovko, Bankwatch's energy campaigner in Ukraine, believes that the intervention from the Espoo Implementation Commission cannot be overlooked by the EBRD. "If, as it claims, the EBRD is solely focused on nuclear safety in Ukraine, it must react to the Espoo Convention breaches as an upstanding, responsible international investor," she commented.

Ukrainian and international environment groups are calling on the EBRD to halt the disbursement of its loan and condition any payments to Ukraine's obligatory compliance with the Espoo requirements – namely, the preparation of environmental impact assessment reports for all units under preparation for extension and consultation with neighbouring states.

In an unrelated matter, following the granting of the EBRD loan in March, a request from Bankwatch's Ukrainian member group NECU for disclosure of the EBRD's project documentation resulted in the bank's partial release – via email – of the 'safety upgrade' loan documentation. Notably missing, however, were key sections of the EBRD board document outlining the project's rationale, the terms and conditions of the loan and information on Energoatom's financial status.

NECU has appealed to the EBRD for full disclosure of the project documents. At the time of going to press, a formal request from NECU to receive the missing documentation was still pending with the EBRD's legal department.

Health impacts of coal quantified – public lenders urged to act

The findings of a recent report entitled *'The unpaid health bill: How coal power plants make us sick'*, released by the Health and Environment Alliance (HEAL), detail the health impacts of existing coal in Europe and quantify the associated costs of mortality and chronic respiratory and cardiovascular disease due to coal pollution.

Estimating health costs of EUR 15.5 billion to 42.8 billion per year from coal power generation in the EU, rising to EUR 54.7 billion per year if Croatia, Serbia and Turkey are also included in the assessment, the report's findings cast a shadow on lending by EU financial institutions in support of new coal projects.

How, then, is coal pollution making people sick?

Even modern coal-fired power plants release large quantities of air pollutants such as sulphur dioxide, nitrogen oxides, and particulate matter. Coal power generation contributes significantly to air pollution in Europe, which European respiratory experts have called an 'invisible killer' and one of today's most important public health threats. The main contribution is in the form of secondary inorganic aerosols, which are part of particulate matter, and which are formed in the atmosphere from SOx and NOx, as well as ground level ozone forming from nitrogen oxides.

Both substances – particulate matter and ozone – are the most worrying for human health, and no safe levels have been established at which these pollutants would cause no harm to human health.

The HEAL report summarises the scientific evidence on how long-term exposure to these air pollutants affects the lungs and the heart. Well known long-term effects of air pollution are chronic respiratory diseases, such as chronic bronchitis, emphysema and lung cancer, and cardiovascular diseases, such as myocardial infarctions, congestive heart failure, ischemic heart disease and heart arrhythmias.

But air pollution can already affect our health in the short term. Impacts include respiratory symptoms, such as chest tightness and coughing, as well as exacerbated asthma attacks. Children, older people and patients with an underlying condition are more susceptible to these effects. Recent research suggests that air pollution may also result in low birth weight and pre-term delivery as a result of maternal exposure during pregnancy.

An assessment commissioned by HEAL for the report concludes that 18,200 premature deaths, about 8,500 new cases of chronic bronchitis, and over 4 million lost working days each year can be linked to coal pollution. As air pollutants can travel over long distances and across borders, the whole European population is affected by coal pollution.

Health experts from HEAL's network as well as Members of the European Parliament express concerns in the report about the current growth trend in European coal consumption and about the high contribution of coal-fired power plants to climate change, which itself will create more costly public health problems, especially amongst patients, the young and the elderly. Coal-fired power plants contribute 20 percent of the EU's CO2 emissions.

Given this double threat to health from coal-fired power plants today and in the future, HEAL is calling on decision makers to phase out coal by 2040 in the EU. As a first step, national moratoria on building new plants should be set – these should be complemented by national phase-out plans.

In the meantime, however, a significant threat to public health is set to persist, especially given the unambitious emission limit set by the Industrial Emissions Directive (IED), which is already outdated by Chinese and US standards. In addition, implementation of the IED still has to speed up, and the plans of 14 EU member states to obtain a derogation for their existing coal fleet from the already unambitious standards constitutes a major concern for public health.

Current levels of air pollution in the EU, especially from fine particulate matter, give rise to concern as they are well above the values recommended by the World Health Organisation. To protect the health of European citizens no derogations should be granted for compliance with the IED.

In addition Croatia, as a future EU member state, should implement the IED on the same time scale as existing member states, and all candidate countries should be encouraged to do likewise, especially given that a number of new coal plants are planned in these countries – it should not be forgotten that any such new coal plants would operate for at least 40 years, thus 'locking in' hazardous pollution as well as greenhouse gas emissions for decades.

In this context a key recommendation being promoted by HEAL is for the ending of all EU lending, including by EU financial institutions, to coal plants, coal mining and infrastructure projects that would contribute to an increase in coal capacity. HEAL has already submitted this position as part of the consultation process on the review of the energy policy of the European Investment Bank.

Given its importance as a major investor in central and eastern Europe, including in several accession countries where the development of new coal-fired plants is becoming an increasingly contentious issue, the EBRD too must give due consideration to these new findings. A major rethink from investors is needed, so that support for coal plants, coal mining and infrastructure projects that would contribute to an increase in coal capacity comes to an end, for the benefit of the European public.

> "The EU has committed to protect public health from air pollution as well as from climate change impacts. As the use of coal in Europe is currently increasing, there is a significant threat to people's health in the short and long term."
>
> Dr. Peter Liese, Member of the European Parliament, cited in the HEAL report

Julia Huscher is Coal and Health Officer for the Health and Environment Alliance (HEAL), a leading European not-for-profit organisation that addresses how the environment affects health in the European Union.

Read more: HEAL's report is available in pdf at: http://www.env-health.org/IMG/pdf/heal_report_the_unpaid_health_bill_how_coal_power_plants_make_us_sick_final.pdf

Lack of imagination – how coal investments are clouding lives and minds in Serbia

Bankwatch's press officer Claudia Ciobanu reports back from a troubling visit to the Kolubara mining basin.

All of the parents I have ever met, including my own, spend a lot of time making plans for their children, dreaming of how the new generation will have better opportunities than they did. While recently visiting the Serbian village of Radljevo, situated on the perimeter of the Kolubara mines one hour's drive south of Belgrade, I met for the first time in my life parents who cannot dream for their kids.

Miljana and Vlada Simić live in a house that lies about 200 metres away from the West Tamnava coal field in the Kolubara complex. Miljana works in the house, taking care of their home, some animals and a small vegetable garden. Vlada has been employed at the mines, on a temporary contract without proper benefits, for the past eight years. He earns around 200 euros a month despite serious risks to his health: earlier this year he was hit on the neck by a metal pole while at work.

The Simić family's house overlooks the vast open pit mine and the family watches the excavators getting closer every day. For over a decade they have been waiting to be relocated or receive compensation from EPS, the state energy company which manages the mines (or, rather, the local subsidiary, Kolubara). This would allow them to buy a new home. Over the years, land and orchards belonging to the family have been swallowed by the mines, with no proper compensation despite them being a source of livelihood for the family.

You would expect the Simićs to hate the Kolubara mines. Instead, they seem stuck in a Stockholm syndrome type of situation: the mine is slowly eating away into their lives, but they depend on it for Vlada's puny salary and for the hope a just compensation might one day materialise. Despite the mines poisoning the water that they are drinking, Vlada and Miljana can hardly imagine other options for their children than working at Kolubara. They return blank stares to questions related to the future of their children.

Given their desperate situation, one can hardly blame the Simić family for this lack of imagination. But this is a state that characterises many in Serbia, whether close to the mines or in the capital Belgrade: few can imagine the country's future without lignite from Kolubara and without EPS, even those whose job is precisely to create alternatives for the likes of Vlada and Miljana.

Digging deeper into international public finance coffers

In the Belgrade offices of the European Bank for Reconstruction and Development (EBRD), one of the main investors in Serbia's energy sector, project manager Ian Brown describes how EBRD money is financing a special excavator that will separate coal from debris during the extraction stage, thus reducing emissions when the coal is burned. An 80 million euro EBRD loan, granted in 2012 to EPS, is going towards equipment that will make mining more efficient and reduce CO_2 emissions from Field C of Kolubara by 200,000 tonnes.

Brown excitedly describes the functioning of the huge excavator. He imitates moving up and down the levers that would separate the coal from the unnecessary residue. He seems proud that the EBRD is contributing to improving the efficiency of mining in Serbia.

Mr Brown's motions lead me to picture him in the excavator: behind the 'wheel' of this huge contraption, fiddling with buttons and levers in this state of the art piece of machinery, elevated high from the ground, satisfied with the efficiency improvements it brings to production but oblivious to what the monstrous machine may be trampling on the ground. Inevitably, this excavator becomes for me a metaphor of the EBRD's position in Serbia.

The bank has provided EPS with several loans over the years and prides itself on having given the first post-war loan to the company, allowing it to resume production. The loans have gone mainly to technology aimed at improving the efficiency of mining, particularly in two areas – West Tamnava and Field C.

The EBRD is unapologetic about its support for coal. Matteo Padrone, the EBRD country representative in Serbia, tells me during my visit: "Let's face it, Serbia has no other resources but coal and hydro. It has no gas." Serbia is currently 65 percent dependent on coal, more than 70 percent of it coming from the Kolubara basin's vast reserves. These are estimated at 540 million tonnes, though estimates also suggest that these reserves will last only another 30 to 50 years.

During the trip to Serbia, I also met with independent energy experts who made it clear that the country has significant biomass potential, which could serve as base load and be complemented by smaller wind and solar capacities.

The EBRD may be able to talk up a CO_2 emissions reduction of 200,000 tonnes, but it is estimated that 500,000,000 tonnes of CO_2 will be produced if all resources at Kolubara are burnt, as is clearly being hoped for at the moment. This is the inescapable bottom line, and given the resounding, highly alarming findings of the latest climate science, the fact that an international public bank such as the EBRD continues to finance coal, the dirtiest of fossil fuels, is highly problematic.

Beyond the climate issues, lending systematically to a company like EPS is a whole separate can of worms. For example, resettlements in the Kolubara basin have been marred by irregularities and controversy.

In 2011, the local cemetery in Vreoci, one of the villages in the Kolubara basin, was dug up despite protests from neighbouring communities. Tens if not hundreds of families are waiting to be resettled or to receive compensation from EPS, with no clear idea of whether they might ever receive what they are entitled to. Hundreds of people's lives are being impacted in this limbo. It is thought that if EPS was to pay all the compensation it legally owes to affected locals, the whole mining operation at Kolubara would cease to make economic sense.

In the midst of this shameful situation, the EBRD maintains that it only has responsibility for the resettlements associated with the fields in which it finances investments (West Tamnava and Field C). The Simić family is located in an EBRD sponsored field, yet the EBRD had no knowledge of their situation. This is not surprising – when asked about how they ensure that affected people know about the EBRD's involvement in mining and the bank's redress mechanisms, the two EBRD representatives I met said that information is available online, and for those villagers who do not have internet access, groups like Bankwatch and CEKOR are relied on to spread the word. It should be pointed out, though, that the EBRD does not really rely on NGOs for sharing information, but rather this was a spur of the moment reply for lack of another response as to how information reaches communities.

To their credit, the two bankers promised to look into the cases of families in West Tamnava. They appeared to be personally concerned about the fate of families on the territory of the Kolubara mines. Yet the overall EBRD approach is to slice and dice responsibility: the bank says it only needs to worry about families on the fields they sponsor, even though on the ground boundaries between the fields are not as clear cut as on maps. It is hard, too, to imagine that the machinery bought with the EBRD loan will only be used in a certain field. Indeed, even if it concerned itself with all resettlement cases, the bank would have limited leverage on a mammoth like EPS, not in the least because it has made it abundantly clear that it has no problem with investing in coal in Serbia.

The EBRD asserts that it is in Serbia for the good of the country and its people, and only secondarily to recoup its loans. But if the bank really wants to do good, it needs to step out of the giant coal excavator; it needs to seriously assess the costs of coal mining in Serbia and acknowledge the full impact of mining on local communities, and on health and the general environment; and it needs to expand its imagination and focus on viable, clean alternatives to coal. As things stand currently, the EBRD is only engendering cosmetic improvements at EPS, while the company maintains its highly toxic grip on Serbia's future.

Read more: Background information on the Kolubara mine project is available at: http://bankwatch.org/our-work/projects/kolubara-lignite-mine-serbia.

New EBRD strategy for Kosovo – why the rush, and why more coal?

Ahead of the scheduled May 1 EBRD board date for voting on the bank's first Country Strategy for Kosovo, Austrian MEP Ulrike Lunacek (of The Greens/EFA group) urged the European Commission, represented on the EBRD board, not to support the draft strategy "in its current form".

Citing a European Parliament Resolution – voted on April 18 – on the European integration process of Kosovo that included an emphatic call on Kosovo, with the financial assistance from the EU and donors such as the EBRD, to focus on developing a clean energy future in line with EU climate commitments, Lunacek's April 25 letter notes particularly that "MEPs have learned with great concern that the (draft EBRD) document clearly indicates the bank's interest in investing in construction of the new Kosovo e Re lignite power plant."

The Austrian MEP referred to an analysis produced by the University of Berkeley that has shown this slated power plant investment to be unnecessary if Kosovo, already reliant on lignite for 97 percent of generated electricity, was to sort out its huge energy wastage and starts to tap its renewable energy resources. The Berkeley analysis details how, in the period up to 2025, Kosovo can meet its energy needs through energy efficiency improvements, wind and hydro energy, as well as biomass and geo-thermal. Such a scenario would also result in three times more jobs created in the country.

Bankwatch and other NGOs that provided comments to the draft strategy had communicated their concerns to the EBRD that the highly rushed consultation process (the commenting period closed less than two weeks before the scheduled board date) was entirely inappropriate given the complex economic, environmental and social conditions prevailing currently in the country.

Other than Kosovo's energy future, Bankwatch pointed to a range of acute issues – including the national poverty level, unemployment rate, corruption rate and poor track record of meaningful consultation and public participation in national decision-making – as ample reason for the EBRD to tread carefully in its setting of priorities for Kosovo within the new country strategy.

Bankwatch called on the EBRD to withdraw the Kosovo country strategy from the board schedule for May 1, and to subsequently update the draft strategy, submit it for a second round of public consultation, and then proceed with final approval once further inputs have been taken into account and changes reported back to the NGOs that commented on it.

At the time of going to press (May 3), no formal announcement had been issued by the EBRD about the new Kosovo country strategy.

EBRD PUBLIC INFORMATION POLICY REVIEW SHOULD LOOK TO EU AND US TRANSPARENCY ADVANCES

This year's flurry of reviews to EBRD sectoral, country and operational strategies has given civil society organisations plenty to think about and provide input on. However, in the case of at least one of the reviews, we already have a pretty good idea what we will say. Because we've said it before – several times.

The EBRD's Public Information Policy (PIP) was, a few years ago, steps ahead of information policies at similar banks such as the European Investment Bank.

Yet as time has gone on, successive policy revisions have failed to bring significant changes to the PIP, while other institutions have moved forward. The impression is that the EBRD's notoriously opaque countries of operations have changed the bank when it comes to transparency matters, rather than the bank changing them.

Beyond the international financial institutions there have been other significant developments taking place.

Transparency standards set by the Dodd-Frank Act in the United States, as well as the proposed European Union Accounting and Transparency Directive, bring stricter reporting rules for the extractive and financial services industries. They set a new benchmark for transparency, and reject claims principally from the extractives industry regarding competitive disadvantage, the need for confidentiality and demands for exemptions.

The new financial regulation rules potentially have global impact, as they concern international companies registered in US and EU jurisdictions, and need to be taken on board by international financial institutions such as the EBRD, as part of the effort to create a 'level playing-field.'

So, as we once again bring our requests to the EBRD this year on really very modest issues like improved disclosure on the environmental impacts and results of projects (especially those categorised under environmental category B), disclosure of project transition impact ratings and improved transparency of EBRD board decisions, it can only be hoped that the bank has been alive to the advances in the international arena and is prepared to reduce the excessive references to confidentiality in its transparency policy.

Improved transparency should, moreover, be viewed by the EBRD as a means to an end. Access to more information in a timely fashion can be a crucial element in empowering the public to protect its interests while also helping to improve dialogue on development issues.

Ensuring 'meaningful' stakeholder engagement in decision-making related to EBRD investments will, though, require a shift in the organisational culture of the bank, rather than merely tweaking its procedures for public participation.

Read more: A public consultation on a new draft of the EBRD's PIP is scheduled for Autumn 2013. Further information is available at: http://www.ebrd.com/pages/about/policies/governance.shtml

New EBRD Environmental and Social policy needs climate muscle and tightened safeguards for protected areas

If there is one sector in which the EBRD has been causing particular controversy in recent years, it is the energy sector. From lignite in Slovenia to hydropower in Georgia and nuclear in Ukraine, the bank has financed a series of projects that have incurred opposition from various quarters. Now that the EBRD is revising its Environmental and Social Policy it's time to take a look at what needs to be learned from these projects.

The EBRD has long since recognised that it needs to be in the lead in guiding its region of operations in the transition to an energy-efficient, low-carbon economy. Since 2008, when the bank's last environmental policy was approved, taking action against climate change has become even more urgent, as prominently pointed out this year by Lord Nicholas Stern. While the bank's definition of a 'low-carbon economy' does not seem to be the same as ours (it seems to still include financing coal power plants, for example), there at least appears to be a shared understanding that the bank needs to involve more efficient use of energy and a higher share of renewable energy.

However, this apparent shared understanding has not led to any significant degree of consensus in reality. Indeed, out of the 11 complaints that have been registered with the EBRD's Project Complaint Mechanism (PCM) since it began operation in 2010, six have been for energy projects, and numerous new issues continue to pop up. While the complaints are limited by the PCM's rules of procedure to issues which are already covered by the policy but not properly implemented, our scrutiny of these projects has also raised several issues which are not well covered by the policy.

First of all, the EBRD does not seem to know how the "environmentally sound and sustainable development" that it is mandated to promote actually looks and how progress towards that goal is measured. Last year the bank's municipal infrastructure strategy made a step forward by including social and environmental indicators for its own sector, but the new Environmental Policy now needs to show how these will be systematically used in the bank and for what end goal.

The climate aspect of sustainability is particularly sparse in the EBRD's current environmental policy. It recognises the importance of addressing climate change but is ambiguous regarding the level of CO_2 emissions that the EBRD is willing to accept in projects it finances.

There is a commitment to prioritise projects with a positive climate impact, but no clear commitments on avoiding projects which either increase greenhouse gas emissions or decrease them by a marginal amount –an amount not sufficient to make a proportional contribution to a country's GHG reductions commitments. The bank's initiatives, such as the Sustainable Energy Initiative represent a step forward, but have too lax criteria for inclusion and as a result end up defining ultimately unsustainable projects like the Sostanj lignite plant in Slovenia as 'energy efficiency investments'.

Given the importance of this issue, the new policy needs to develop a new section dedicated to climate issues and declare which emissions reductions trajectory the EBRD intends to follow. CO_2 reduction targets need to be introduced – for absolute rather than relative emission cuts – along with specific requirements for investments across all sectors.

An alternative or complementary approach would be to expand the EBRD's exclusion list to avoid financing projects with high levels of GHG emissions, such as coal projects, along with those which are likely to cause significant harm in other ways. At the moment the EBRD prefers to take a case-by-case approach, but it would be much more motivating for governments to find alternatives to coal projects if they knew they couldn't get financing from the EBRD for coal projects per se, rather than waiting until a project is highly developed and then continuing to push it through lack of a better idea.

Better criteria for renewables

Where there should be more agreement between civil society groups and the EBRD is on the need for investments in renewable energy. A rapid but sustainable uptake of renewable energy is essential if we want to address climate change and unstable fuel prices, and offers other important benefits such as job creation.

However, as renewable energy by definition has to be situated where the renewable resources are located, experience is showing that anything can cause problems if it is in the wrong place or on the wrong scale. Unfortunately mistakes are already leading to public backlashes around poorly planned renewable energy projects. This danger will only increase in the future with an increasing number of investments.

In the last few years hydropower has been particularly controversial in southeast Europe (see this issue's article on the Ombla project in Croatia) and Georgia. As investments in this sector expand, problems are also now appearing with small hydro plants in Ukraine, Georgia and Armenia. The key problem is biodiversity destruction in protected areas, but also local populations are coming under threat from potential flooding or lack of water in some cases. The EBRD needs to adopt publicly available sustainability criteria for renewable energy investments in order to screen out damaging renewable energy projects at an early stage and also set a good example for other investors.

Of course it is not only renewable energy projects which are harming areas of important biodiversity or cultural value. However, due to the need to carefully guide such investments to ensure that renewable energy flourishes in the EBRD's countries of operation, Bankwatch has singled these out for detailed sustainability criteria. For all other projects, projects like the Oyu Tolgoi mine in Mongolia and the Kumtor mine in Kyrgyzstan have shown the necessity of establishing 'no-go zones' consisting of protected areas, other high conservation value areas, areas important for food security and traditional livelihoods and territories of indigenous peoples where full, free, prior and informed consent has not been obtained.

The current environmental policy has provisions for projects that impact critical habitats and protected or designated areas. Yet implementation depends too much on state authorities and the bank's clients, and the current policy has not proven to be sufficient. Areas of high biodiversity value, water sources or culturally important areas also often lack protection status in the bank's countries of operations and need an additional level of scrutiny in this crucial EBRD policy.

It may be only a few years since the EBRD's 2008 Environmental and Social Policy was approved, but in practice it is clear that a more decisive stance is needed by the bank if it is to avoid financing environmentally and socially harmful projects and select only those which bring us closer to a really sustainable society. The question now is whether the EBRD is set on rigorously addressing these problems, or whether it is content to do the minimum it believes it can get away with.

When in hole, stop digging: lessons from the Ombla hydro project in Croatia

At the time of writing, it is highly uncertain what the future holds for the controversial 68 MW Ombla underground hydropower plant. Approved for financing by the EBRD back in 2011, only recently has a nature impact assessment study finally been published, and no final opinions have been given by either state institutions or the EBRD on whether the project is to go ahead.

Yet even now, one thing is for sure: this project has to be one of the best case studies from recent times on how not to develop a project, and EBRD staff would do well to examine it as part of the review of the bank's Environmental and Social Policy this year.

Lesson one: Projects which are several decades old are not likely to be that great

The Ombla hydropower project has been around at least since the early 1980s, in what was then Yugoslavia. It received another few jolts of life at various points in the 1980s and 1990s, but is not mentioned by name in Croatia's 2009 Energy Strategy. It suddenly appeared in a January 2011 government wish-list of priority infrastructure projects, which had apparently been developed without any analysis of actual needs, and certainly with no public consultation.

Given this background, the chances that the project would serve today's needs were slim. Indeed, a leaked report by consultants hired by the EBRD to examine Ombla pointed out that it will produce least power during the low water summer season. Yet this is exactly when the Dubrovnik area most needs electricity due to the high tourist season.

Lesson two: Projects which are not ready should not be approved

The project was approved in November 2011 before any of the most serious criticisms presented by the public had been properly addressed. Civil society organisations repeatedly asked the bank what the hurry was, but never received a satisfactory answer.

It seems that the project was simply approved prematurely for political reasons. HEP, the project sponsor, is well-known as a company which successive Croatian governments have used to provide jobs for their favoured allies and which dictates the government's energy policy. Thus signing the project a few days before a general election in which Croatia's government changed helped to ensure that the project survived the change to a coalition which had declared itself to be against the project in its pre-election manifesto.

Lesson three: Sticking plaster approaches prevent effective public participation

The EBRD has shown a remarkable lack of concern about the fact that Ombla is not part of any plan or programme that has been subject to a strategic environmental assessment. This means that alternatives to the project were not examined while all options really were still open, and that the public was denied an opportunity to comment on the wider environmental issues around the energy sector in Croatia.

In addition, the environmental impact assessment (EIA) for the project was carried out in 1999, back in the days when Franjo Tudjman was still dictator in Croatia – hardly likely then that the study would meet today's standards. The EBRD tried to patch this up by publishing the study on its website in summer 2011, but local affected people were not aware of this and were not consulted at all until early the following year. In September 2011 Croatian civil society groups pointed out several serious weaknesses in the EIA study and process, but the project was approved by the EBRD all the same. As the EIA had been approved years earlier, there was no legal recourse mechanism available under Croatian law.

Lesson four: Ad-hoc studies cannot replace legally defined processes and effectively promote EU standards

When the project was approved, a condition was set that HEP would have to carry out an appropriate assessment according to the EU Habitats Directive before financing would be disbursed. Now, a year and a half later, this assessment has been carried out and confirms that the construction of the Ombla hydropower plant would have irreversible impacts on the Vilina Cave – Ombla Spring system and could permanently destroy habitats that are set for protection as part of Croatia's future Natura 2000 network.

In the study altogether 68 cave species were identified, of which almost all are endemic to the Southern Dinaric region in southern Croatia and Western Bosnia, and many are endemic to the narrower region around Dubrovnik. The study finds as many as 14 species are endemic to the Vilina Cave – Ombla Spring site alone.

However, rather than admitting that potentially wiping out tens of endemic species and destroying critical habitats should necessitate the project not advancing, the assessment concludes that the project will go on. The only possible explanation for such an incongruous conclusion lies in a January 2013 article in Croatian magazine 'Globus' that HEP pressured the consultants engaged in the study to water down their conclusions.

Now, in an interesting turn of events, Environment minister Mihail Zmajlovic is reported by Croatian media as having refused to issue an opinion on the study, given that it was carried out as an ad hoc demand by the EBRD outside of the Croatian legal framework. In other words, we have a host country minister maintaining higher standards than the EBRD. Hang on, isn't that the wrong way round?

CROATIAN COAL POWER PLANT PREDICTED TO BE A KILLER – NEW STUDY

A new report by Greenpeace Croatia, using European Environment Agency methodology, shows that the planned new 500 MW unit at the Plomin coal power plant in Croatia will cause approximately 17 early deaths annually, along with around 3970 lost working days due to illness and EUR 124.8 million in external costs.

The study exposes as misplaced Croatian electricity company HEP's repeated attempts to cast the plant as 'clean', and shows that even if the new plant is more efficient than the existing Plomin 1, it will still have significant social costs. While not formally involved in Plomin C as yet, the EBRD is widely reckoned to be a potential source of project finance for Plomin C.

Using emissions data from HEP's own environmental impact assessment, the new study takes a conservative approach and does not include the social costs of the existing Plomin 2 unit, which will continue to operate for part of Plomin C's planned lifetime.

Croatia has no active coal mines and all coal must be imported from overseas, from various locations including South Africa, the US, Colombia and Indonesia. While this report focuses only on the impact of the process of burning coal to produce electricity, it should also be taken into account that the entire process – or life cycle – of coal, from mining, through transport, handling, burning and waste disposal, and in some cases land reclamation, has a direct impact on the environment, human health and the social fabric of communities living near mines and other facilities, through water and air pollution and disruption of ecosystems.

Zoran Tomic, of Greenpeace Croatia, commented: "The report shows that if Croatia supports the construction of new coal power plants, it will be locked into unsustainable development for the coming decades, with harmful consequences for public health, the climate, tourism and the economy. The government needs to support the energy system of the future, enabling strong advancement of renewable energy, smart networks, and energy efficiency measures, which will not only help in the fight against climate change but also provide numerous jobs and business opportunities."

Bernard Ivcic of Zelena akcija/ Friends of the Earth Croatia, which is currently challenging the environmental permit for Plomin C in court, added: "It is not yet clear who – if anyone – will finance Plomin C, but if the EBRD is considering it, it should take these new findings into account in its project appraisal. An average of 17 deaths per year just to generate electricity cannot be justified: we have to use less energy and clean, renewable resources to generate it."

One of the great enablers: How the EBRD threatens the environment and human rights in Kazakhstan and Turkmenistan

In its recent report, 'The great enablers: How investments by international financial institutions threaten the fragile Caspian Sea ecosystem', Crude Accountability describes how investments in the Caspian Sea region by international financial institutions, including the European Bank for Reconstruction and Development, are contributing to the intensification of extraction of and trade in the region's oil and gas.

Support for infrastructure and transportation projects, which are not subject to the strict disclosure and environmental assessments that are required of projects in the natural resource extraction portfolio, provides avenues for gas and oil from Kazakhstan and Turkmenistan to get to world markets. The report suggests that the EBRD's investments in natural resource related projects in Kazakhstan and Turkmenistan, countries with poor track records in human rights and governance – particularly in the oil and gas sector – undermines the institution's mission and poses serious risks to its reputation.

The EBRD has provided hundreds of millions of dollars in loans for projects that fund pipelines, roads, port development, the purchase of ice-breaking tugboats, and ship maintenance facilities in Kazakhstan alone. All of these projects support the extraction of oil and gas at Kazakhstan's major fields, including at Tengiz and Kashagan.

However, because these projects fall under the aegis of infrastructure and transportation, they are not subject to the more intense scrutiny that oil and gas projects undergo. The associated risks are not included in project assessments, and their connection to oil and gas development is ignored.

For example, in 2010 a USD 65 million loan to the company Circle Maritime Invest enabled the purchase of tugboats. The three boats service Agip KCO, the lead operator in the development of the Kashagan offshore oil and gas field, one of the largest, most expensive and environmentally dangerous projects in the region. Without these boats, the Kashagan off-shore platforms could not be serviced year-round, as the north Caspian is icebound for much of the winter.

However, the EBRD claims no responsibility for the dangers associated with the Kashagan field. As the EBRD project summary document states, "The acquisition of three new tug boats is associated with limited environmental and social impacts that can be readily identified and mitigated. Therefore, the project is categorised as B." The EBRD documents make no mention of the fact that Kashagan, the second largest oil field in the world, is difficult to develop "because of the harsh offshore environment, where sea ice is present in winter and temperatures can range from -35 °C in the winter to 40 °C in the summer. More significantly the oil is light with a high gas-oil ratio and a very high hydrogen sulphide (H_2S) gas content of about 20%."

In addition to the environmental and social problems associated with Kashagan, ENI, one of the companies active at the field, was accused of bribing Kazakhstani officials in 2012. By financing projects that support Kashagan, rather than financing the project itself, the EBRD is able to distance itself from corruption at this field and in other projects throughout the region, where corruption, particularly in the oil and gas sector, remains rampant.

The EBRD has no current investments in Turkmenistan, which support the oil and gas sector. However, its 1999 USD 75 million loan to Dragon Oil enabled the company to develop the Cheleken Field, which is approximately 50 kilometres offshore from the Cheleken Peninsula, and which averaged 67,600 barrels of production per day in 2012.

The EBRD also provided a USD 47 million loan to rehabilitate the Turkmenbashi Port in 1997 – the bank's first investment in Turkmenistan's public sector. Turkmenbashi Port is Turkmenistan's largest port, and most goods transported through the port are petroleum products. In 2012, the Baku Tbilisi Ceyhan Pipeline pumped 2,520,000 tons of Turkmen oil, which was transported by tanker from Turkmenbashi, across the Caspian Sea to the Sangachal Terminal where it was loaded into BTC.

Crude Accountability's report recommends that the EBRD and other IFIs abstain from investing in state-controlled resource-related projects, including those in the transportation and infrastructure sectors; institute human rights assessments as a standard part of their review of potential projects; and avoid sensitive areas and scale up disaster preparedness assistance.

Kate Watters is the Executive Director of Crude Accountability.

Read more: 'The great enablers' report by Crude Accountability is available in pdf at: http://crudeaccountability.org/wp-content/uploads/2012/12/Great-Enablers.pdf

EBRD ENERGY POLICY REVIEW – NO MORE EXCUSES, RHETORIC OR FINESSING

Energy is the watchword of the day, as we keep increasing the need for it, no matter the costs, apparently. Well, the costs do matter but they are distorted by subsidies old and new, for fossil fuels and for renewable energy sources, while the global business world is made to feel increasingly insecure by the price of carbon emissions.

Ultimately, this is blurring the contours of the central challenge: that we need to change our ways in many dirty sectors if we want climate action to be real, not just debate forever whether coal can still be a part of our lives or whether renewables can cover all of our needs. While generally the EU cannot be expected to interfere with member states' energy choices, nonetheless it too often remains silent on projects that contradict its climate commitments, even at times putting its money into such projects.

In this context, especially with the EU's 2030 and 2050 climate targets bearing down on it, the EBRD's revision of its energy policy – now underway and running in parallel to the EIB's review of its energy lending – is for sure an uncomfortable process for the bank. Not only does it have to balance the fact that its main – and original – region of operations, central and eastern Europe, is still endowed with substantial fossil fuel reserves, unlike the EIB – an institution owned by the EU that is squarely supposed to implement EU policies – the EBRD has an international shareholders' structure. Yet for years we have heard from successive EBRD presidents that the countries of operation need to diversify their economies, most notably away from over-reliance on natural resources. Leading international bodies such as the International Energy Agency are also notably upping the ante by increasingly pointing out the climate change folly of continued support for fossil fuel extraction.

Yet, from what has been seen so far in the early stages of the EBRD energy policy review, and aside from the pro-climate rhetoric, the EBRD appears set on being supine and detached from the climate policies and required action.

Over the past few years there have been some very welcome developments in the EBRD's energy lending, such as a large increase in its energy efficiency and new renewables investments. However, this good news has been undercut by the bank's continued financing of fossil fuels, which comprised almost half (48 percent) of its overall energy lending in the period 2006-2011. The EBRD cannot solve Europe's shortage of clean energy finance by itself but it is not unreasonable to ask – why restrict its limited resources still further by continuing to plough them into coal power plant projects, among other fossil fuel follies?

Irrespective of EBRD actions, companies will continue to extract fossil fuels as long as the market allows it. The EBRD's role, therefore, should be to contribute towards moving its countries of operations along the necessary transformative path, to the point where they are functional in a decarbonised world. Yet, as it looks toward the future and plans its part in the energy sector, the EBRD appears to be exploring support for – unbelievably – unconventional oil and gas.

With the new draft policy expected in June this year, the EBRD's new energy policy needs to completely phase out investments into expansions of the fossil fuel sub-sectors, including extraction, transportation, storage and electricity generation and limit its investments in these carbon-intensive sectors only to energy efficiency or safety projects that neither increase the lifetime nor increase the capacity of such facilities.

This would mark a first small, yet giant, step towards a climate policy at the bank. It is called a 'European' bank, but it is not owned entirely by European states. It does not act in Europe alone. It is clearly not an EU institution. No matter – the decarbonisation agenda cannot be regional.

Stop paying the polluters

by Connie Hedegaard, EU Commissioner for Climate Action

"When the winds of change blow," says an old Chinese proverb, "some build walls, and others build wind mills."

These same words closed the meeting in March of the Climate Parliament, a forum in Brussels that brought together legislators from around the world who are committed to the fight against climate change. Parliamentarians, United Nations representatives, and the International Energy Agency (IEA) alike agreed that ending dependency on fossil fuels is one of the most urgent steps needed to combat it effectively.

The voices from the Climate Parliament join a growing crescendo of influential actors who are speaking out about the need to clean up our energy habits. During January's World Economic Forum in Davos, Lord Nicholas Stern, author of a well-known report outlining the measures that the world should take to avoid runaway climate change, admitted that the planet is on track to warm by four degrees Celsius this century. Looking back, Stern said, his report could have been more insistent about the need to take determined action to avoid the catastrophic risks that this level of warming implies.

Stern's sentiment was echoed by Christine Lagarde, Managing Director of the International Monetary Fund, who pleaded in favor of stronger climate action to prevent future generations being "roasted, toasted, fried, and grilled." And World Bank President Jim Yong Kim announced that his institution would prioritise the fight against climate change and focus on promoting, among other measures, the elimination of subsidies doled out to the fossil-fuel industry.

With this pledge, the World Bank joined an expanding list of international bodies, including the UN, the IMF, and the OECD, that are calling for an end to such subsidies. Globally, we are on track to reach an international climate deal. But this will still take time, while the need for action will not wait. Harnessing the existing broad consensus against fossil-fuel subsidies is possible even in the absence of a legal agreement, and could quickly have a significant positive impact.

According to the IEA, fossil-fuel subsidies rose by almost 30 percent, to USD 523 billion, in 2011. Meanwhile,the UN Environment Program reports that global investment in renewable energy totaled only USD 257 billion in 2011.

In other words, we are doing exactly the opposite of what we should be doing. Support for energy efficiency and renewable energy sources is lagging, while governments around the world spend hundreds of billions of dollars subsidizing an incipient catastrophe. This must change.

As European Commissioner for Climate Action, I am particularly keen to see three international financial institutions – the European Investment Bank, the European Bank for Reconstruction and Development, and the World Bank – join with their EU and OECD partners to take a lead role in eliminating public support for fossil fuels. Together, these three institutions lend more than EUR 130 billion (USD 168 billion) annually for projects in Europe and beyond, and maintain a strong advisory role in beneficiary countries. This year provides an especially important opportunity to use this potential for action.

> "International financial institutions should guide public and private investments alike away from a short-term logic ... public financing can drive the decarbonisation of our energy system and our economies."

All three institutions have announced reviews of their lending policies for the energy sector. The outcome will underpin their lending over the next 4-6 years, and send a strong political and financial signal about worldwide commitment to addressing climate change. Four to six years is also the interval over which climate scientists predict that greenhouse-gas emissions must peak and start to be reduced if the world is to have any hope for a decent future.

Multilateral lenders can lead by example by restricting conditions for public financing of coal, the most damaging fossil fuel, and by pressing for greater transparency in reporting on emissions. Encouraging investments in renewable energy and increased energy efficiency will have the added benefit of boosting long-term self-reliance and resilience against the volatility of fossil fuel prices.

More broadly, international financial institutions should guide public and private investments alike away from a short-term logic. Supported by a stable, long-term climate-policy framework, public financing can drive the decarbonisation of our energy system and our economies.

Instead of offering unsustainable and environmentally damaging subsidies for fossil fuels, public finance should encourage the development of new industries and businesses that are emerging in the course of the low-carbon transition. The industries of the future, which will create jobs that last, are those that will use scarce resources efficiently, and that can pay the real environmental and health costs of the resources that they use.

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NEVER AGAIN – Sostanj lignite power plant financing slammed

Following confirmation at the beginning of March that the European Investment Bank and the European Bank for Reconstruction and Development are paying out half a billion euros in loans for a new unit at the Sostanj lignite power plant (TES 6) in Slovenia, 98 organisations sent an open letter to both banks calling on them to never commit to such misguided loans again.

Lidija Zivcic from Focus in Slovenia, one of the letter signatories, commented: "Over the last two years, we have seen the EIB and the EBRD become increasingly embarrassed by the TES 6 project, but at the same time seemingly not managing to find a legal way to extricate themselves from it."

The letter, addressed to the banks' respective presidents, sets out the main reasons why TES 6 was undeserving of public loans from the EIB and the EBRD:

- Slovenia will now have to choose between failing to reduce its emissions by 80-95 percent by 2050 and closing TES 6 before the intended date.
- No alternatives to a lignite or coal unit were seriously examined. With the investment of so much public money in a new lignite plant, the development of energy efficiency and renewables in the country will be crowded out.
- Health impacts from the project were not taken into consideration and it was left to civil society to find out that TES 6 would annually (from 2016 on) cause between 33 and 48 deaths and create between EUR 168 million and EUR 242 million in costs to the national economy.
- Corruption allegations about the project were public knowledge when the EIB approved the second tranche of its loan and the EBRD approved its loan in 2010. Even now OLAF, the European Anti-Fraud Office, has not yet concluded its investigation into the case, which still threatens to cause further problems for the project.

Read more: The NGO letter is available at: http://bankwatch.org/sites/default/files/letter-EBRD-EIB-Never-again-Sostanj-20Mar2013.pdf

More questions than answers – the EBRD's new country strategy for Russia

The new EBRD country strategy for Russia that will apply for 2013-2015 attracted input and comments from several human rights and environmental watchdogs, among them Human Rights Watch, WWF, Greenpeace and Bankwatch. As part of the consultation on the new strategy, NGOs expressed concerns about the current political and social situation in Russia as well as the dangers of natural resource development. The comments were incorporated into the strategy document but it remains unclear if NGOs were able to influence actual decision-making.

One of the pressing issues outlined in the EBRD's new Russia strategy is the country's oil and gas dependency. EBRD president Suma Chakrabarti has described Russia as the country with the most urgent need to move away from fossil fuels. "Russia is so dominated by oil and gas, more than in the Soviet Union era," Chakrabarti said in an interview on Bloomberg television last month. "So it really needs to diversify. And the government is absolutely committed to diversify, EBRD is helping them to do that".

Yet, for the EBRD, this stated goal will not in fact prevent the bank from funding Russia's fossil fuels sector. According to the strategy, the EBRD still intends to sponsor "small and medium regional independent oil and gas producers" to ensure transparent access to the allocation of licenses for mineral resources. Another reason to fund oil and gas companies, it appears, is climate change adaptation. The logic, though, is elusive – the EBRD strategy assumes that pipelines in permafrost regions may be at risk as a result of melting ice.

The EBRD's apparent willingness to continue to support Russia's oil and gas sector has provoked criticism from environmental NGOs. According to Vladimir Chuprov of Greenpeace Russia, "Indeed, permafrost melting will make oil and gas pipelines more vulnerable and lead to more accidents. It is supposed that the EBRD may invest in the sustainability of oil pipelines. But it's difficult to argue that Russian oil and gas companies are too poor or unprofitable to pay these costs themselves."

Russia's Gazprom and Lukoil have been listed by Forbes as having annual net profits of more than USD 40 billion, Rosneft stands at USD 11.2 billion in profits and TNK-BP stands at over USD 7 billion.

Chuprov argues that the Russian oil giants are merely taking advantage of a situation where oil leakages are cost efficient. "What the EBRD could do," he says, "is help the Russian government amend the legislation so that leakages would become unprofitable, and fixing pipelines in permafrost regions becomes the responsibility of the oil companies themselves, not of a third party bank."

More widely, legislative gaps and lack of political will is one of the key challenges facing the EBRD in Russia. For instance, very little progress has been made in renewable energy since 2011. EBRD investments into renewables have been restricted to the renovation of old Soviet-era hydropower plants. For 2013-15, the bank is aiming to continue assisting the Russian government with the necessary legislation and institutional framework, an arduous process that has been going on for years.

When it comes to urgently needed investments for energy efficiency measures across the whole range of the Russian economy, arguably more progress has been made as a result of energy efficiency being deemed to be a cross-sectoral objective incorporated into all EBRD projects as far as is possible. For the next two years, the EBRD plan is to help introduce international best practice in energy efficiency in power generation and in the housing sector, as well as to consult further with the government on legislative issues.

> "Our concern about energy efficiency is that it can be used as a justification for very dubious projects, such as the Kuzbasskaya coal mining company loan in western Siberia that the EBRD is considering at the moment."

However, as in other countries in the region, the 'energy efficiency' label attached to some EBRD projects can be highly misleading, not least in climate terms. As Tatyana Skrodenis from the Save Yuntolovo environmental group points out, "Our concern about energy efficiency is that it can be used as a justification for very dubious projects, such as the Kuzbasskaya coal mining company loan in western Siberia that the EBRD is considering at the moment."

The Russian Arctic must be a no-go zone

Russia's Arctic shelf, currently a hot spot for extractive industry speculation, is another major concern for environmentalists. A key focus of comments submitted to the draft strategy, NGOs suggested that the EBRD establish no-go zones and refrain from investing in the Arctic shelf and protected areas.

The EBRD did not reject these comments but suggested that they be addressed to the review of the bank's Environmental and Social policy during 2013.

PPPs

Public-private partnerships (PPPs) are one of the investment vehicles in which the Russian government is willing to cooperate with the EBRD – yet such schemes have been the focus of major public concern in recent years. In the 2011-2013 period the EBRD approved several PPPs, including the Western High Speed Diameter (WHSD) motorway in Saint Petersburg. The project was promoted as a flagship PPP for Russia, and although it is too early to make any conclusions about its financial success, the EBRD is clear about its intention to invest in more PPPs in the future.

However, as Tatyana Skrodenis from Save Yuntolovo points out: "The possible failures of PPPs will be covered by taxpayers." As evidence she cites the fact that Saint Petersburg has guaranteed yearly income of 9.7 billion rubles to the WHSD concessionaire. If profits from the motorway project fail to materialise, the concessionaire will be compensated from the city budget.

Human rights on the line

The new EBRD strategy takes a very optimistic view of the present human rights situation in Russia. Referring to the most recent parliamentary and presidential elections that were marred by numerous legal violations, the strategy notes that at the same time they "have created some momentum for reforms".

The political context section of the strategy was however significantly extended as a result of input from NGOs during the public consultations. The comments accepted by the EBRD described the unprecedented pressure on public organisations: the requirement to register as 'foreign agents', amendments to the legislation regarding state treason, the ongoing highly intrusive checks and revisions, and criminal charges against activists. A further aggravating factor is that over the last five years the legal framework for public participation in Russia has been destroyed.

An underlying issue presented by human rights activists is that the strategy does not lay out what impact the political and democratic situation will have on EBRD investments in the coming period, nor does it deal clearly with how the bank intends to ensure that its investments contribute to a deepening of democracy and human rights.

Armenian gold mining problems cast shadow over renewed EBRD financing

The attention of the environmental community in Armenia has recently been focused on events swirling around the Deno Gold Mining Company (DGMC). The company has been contending with rising tensions in Kapan as a result of its laying off of workers at its gold mining operations coupled with failings at its Geghanush tailings facility. The controversies have arisen just as the company awaits disbursement of a new loan from the EBRD.

DGMC is owned by the Canadian mining company Dundee Precious Metals. Dundee is a long-time EBRD client, and activists are questioning how new EBRD financing can proceed in view of the company's failure in Armenia to deliver on its commitment to apply the highest standards – both technical standards, for securing the adequate mitigation of negative impacts of the tailings facility, and standards on conducting 'meaningful consultation' and promoting democratisation.

DGMC is exploiting the Shahumyan gold deposit that belongs to the administrative territory of Kapan and is producing the ore in a connected processing plant. Industrial tailings from the complex are being discharged into a tailings storage located in the village of Geghanush, about three kilometres from Kapan. The Geghanush tailings facility has been upgraded thanks to USD 4.5 million loan financing from the EBRD, and opened in 2008.

Regrettably, though, the Geghanush tailings storage facility has been built deficiently. According to a verdict of March 21 this year from the National Bureau of Expertise, and presented to the Court of General Jurisdiction of Syunik Marz (a regional unit in Armenia), the drainage channels of the tailings facility do not match the original feasibility study prepared for the project.

The Court requested an investigation following a lawsuit filed by local company Mrkadzor against DGMC. In July 2009 a car repair station owned by Mrkadzor was affected by the collapse of a wall that runs in parallel to the drainage channels of the Geghanush tailings facility.

The findings of the National Bureau of Expertise in this case state, among other things, that "the concrete wall collapsed due to the erosion of the bottom and the walls of the water drainage pipe's vibrancy at the junction of the old and new drainage systems. The leakage of water washed away the basement of the concrete wall and it collapsed". Hence, it appears, the construction was badly worn out and the respective documents refer to the technically poor condition of the drainage: "The construction of the Geghanush tailings storage was negligently conducted and does not comply with the projected documentation and proposals", according to the National Bureau of Expertise conclusion.

Other than this particular incident, other problems with the tailings pipe have surfaced in recent times. In 2012 two accidents stemming from the Geghanush tailings pipe took place resulting in discharges of waste into the surrounding environment. Syunik's territorial Environmental Inspectorate linked an accident of December 14, 2012 to the clash of tailings pipes due to the pressure of the tailings – this incident caused damage of up to 2.88 million drams (or USD 7,200). Two weeks previous, on December 1, 2012, another accident occurred, releasing tailings into the cross-border River Voghji.

The project commenced in 2007, despite complaints from Geghanush villagers during public discussions – 134 villagers signed a petition against the new facility's construction.

Layoffs and workers' rights issues at DGMC

In autumn of 2012, DGMC laid off employees precipitating an extremely tense stand-off between the company on the one side and the population of Kapan and workers. According to a DGMC Public relations officer, 30 employees were fired out of a total workforce of 1100. Similar layoffs caused an earlier wave of discontent in 2009-2010.

March this year also saw concerns mounting over mooted wage cuts at DGMC. The few workers who filed complaints were dismissed. On March 15, DGMC organised a briefing with journalists, during which the director Hrach Jabrayan commented on several issues, noting principally that additional payments only apply if a monthly extraction rate of not less than 45 thousand tons of mined ore has been fulfilled. Jabrayan accused workers of failing to fulfill this target rate, as well as of theft.

The employees, on the other hand, claimed that the plan was being executed, stating that the machines were in poor condition and did not function properly, which in turn was a reason for poor performance.

Local activism

A further high profile saga to have hit the company recently involves a controversial lawsuit that it launched against prominent environmental activist Yeghia Nersisian. DGMC accused Nersisian of defamation following remarks made at a public meeting in the US: "...a Canadian gold company in Kapan is applying an electric shock to its employees so that they will not sleep and will work for 24 hours...".

Rumours about the use of electric shocks in Kapan spread after a series of strikes in 2010. The company neither permitted the press to enter its territory where miners were striking, nor were the police admitted; the regional and city administration were unable to establish the veracity of the claims.

The lawsuit against Nersisian immediately came to the attention of the environmental community. On behalf of 50 NGOs, Environmental Public Alliance distributed a statement that noted: "Mining companies have decided to repress the voice of the public 'green' movement in favour of the preservation of environment, water, earth ... We appeal to civil society to speak out in support of Yeghia Nersisian and request the court to deny the claim of Deno Gold Mining Company in the first sitting due to the unreasonableness of this lawsuit."

Well-known environmental activist Mariam Sukhudyan, who received the title of 'the bravest woman of 2010' from the US Embassy in Armenia, issued the following statement on Facebook: "I agree with the position of Yeghia Nersisian. You are exploiting people and nature. I've talked about it, now prosecute me as well."

As for the trial itself, at the first court sitting on March 29 this year, representatives from Environmental Alliance protested outside the court building. The representatives of the company were not present in the court. The protest continued at the Yerevan office of the EBRD. The action was related to the bank's allocation of a loan to Dundee Precious Metals for its operations in Armenia (via DGMC) and Bulgaria.

Activists believe that the reaction of DGMC to Yeghia Nersisian's statement relates specifically to the EBRD credit, as the comments might have been noted and picked up by foreign media. Similar statements in the local press did not attract the same reaction from the company.

New EBRD loan

A new 'revolving debt facility' of USD 45 million was granted by the EBRD to Dundee Precious Metals in December last year – it covers the company's operations in both Armenia and Bulgaria and is aimed at establishing "higher standards and practices related to the environment, social conditions, health, safety, and transparency."

For the operations in Armenia, the loan has certain initial conditions, such as:

- Dundee's Deno Gold operations in Armenia will adopt and implement an Environmental and Social Action Plan agreed with the bank to bring Deno Gold in compliance with the bank's performance requirements.
- Deno Gold will adhere to "publish what you pay" principles further contributing to greater transparency in the mining sector in the country.

Even though according to Elijah Garkov, the former Director General of DGMC, loan money from the facility has not yet been disbursed for the Armenian operations, EBRD representatives regularly appear in Kapan and meet with DGMC.

The question remains how the EBRD will view DGMC's fitness for further support given the recent problems relating to environmental performance, labour issues and civil activists. Will the EBRD be alive to and adequately consider the Armenian realities?

Inga Zarafyan, EcoLur NGO, Armenia

Dire straits – EBRD backing for oil transportation in the Kerch Strait appears belatedly on public radar

A European Bank for Reconstruction and Development loan to the SVL group, granted with no public oversight, threatens new oil-related catastrophes.

In November 2011 the board of directors of the EBRD approved a USD 20.1 million loan to the Solvalub (SVL) Group to partially finance the acquisition of new tankers classed as 'sea-river'. SVL, a Russian company though registered in the British offshore territory of Jersey, received a parallel credit for acquiring the tankers from the Russian bank JSC 'Unicredit Moscow'.

The tankers will transport oil along the River Volga, the Don, the Volga-Don canal and the Sea of Azov, for subsequent transhipment to the Kerch Strait. In March 2013, the first tankers were constructed as part of the project at the Kherson shipbuilding factory in southern Ukraine.

The official documentation for the project on the EBRD's website states that the building of these tankers does not present a serious ecological threat. As a result the project was rated by the bank as category 'B', thus requiring neither consultation with the public nor the conducting of an environmental impact assessment.

As a result, the granting of the EBRD credit proceeded with minimal public knowledge or scrutiny. Equally, SVL made no public announcements about its intention to apply for such a loan from an international financial institution.

The relative secrecy surrounding the project, therefore, has avoided inevitable questions that would have been raised by environmentalists on account of the project's nature – oil transhipment in this particular area carries huge ecological risks after all – and of SVL's checkered history.

Indeed, the fact that the tankers would be carrying oil and oil products in the Kerch Strait also appears to have been concealed by both the EBRD and SVL.

The EBRD project summary document provides no mention of the Kerch Strait, even though this is key information in relation to the ecological aspects of the project.

The precarious nature of the Kerch Strait

In 2007, a major ecological catastrophe took place in the Kerch Strait. As a result of extreme storm conditions, the tanker 'Volgoneft-139', classed as 'sea-river' and carrying fuel oil, broke in two. Resultant oil pollution affected a large part of the coast of the Taman, and also the Crimean coast.

After the catastrophe the question of prohibiting the transhipment of oil and oil products in the Kerch Strait was repeatedly raised. This was due to the inability of Russia and Ukraine to guarantee safe navigation and loading work in the strait, which is excessively dangerous for navigation.

Moreover, the high ecological value and vulnerability of the Kerch Strait's maritime waters, where the preservation of biological diversity is crucial and also where fish stocks are replenished in the Sea of Azov and the Black Sea, had resulted in heightened concerns.

Transhipment in the Kerch Strait is carried out in dangerous proximity to the waters of the Taman-Zaporozhski reserve and the wetland site 'Taman and Donskoi bays of the Black Sea', which has now been designated as a potential Ramsar Convention site.

Clearly, the SVL-EBRD deal should have been a category 'A' project from the outset, deserving – as with any project that presents a very serious environmental danger – of close public scrutiny and rigorous assessment.

Not learning from the past

The EBRD has encountered difficulties with similar acute projects in this region in the past. Public consultations over a planned credit to the company 'Tolyatyazot' for the building of a terminal for the transhipment of ammonia on the Taman peninsula saw vigorous opposition from the local population and environmentalists. In the end, the EBRD loan was not issued.

Furthermore, SVL's previous activities in the Kerch Strait raise issues about the EBRD's criteria for this particular client, especially as the bank's project documentation consists of a very favourable description of SVL Group as 'a serious and effective operator, which adheres to internationally proclaimed ecological standards and demands for the protection of health.' Yet, this description takes no account of the company's previous environmental malfeasance.

Yugkhimterminal Ltd. and Yugnyeftekhimtransit Ltd., both part of the SVL Group, have previously been identified as major abusers of the preservation of nature and sanitary legislation in the Port of Caucasus.

In one case dating from 2006, Yugkhimterminal Ltd. built a chemical terminal for the transhipment of toxic cargo directly in the village of Chushka in the northern part of the Kerch Strait. As a result, villagers found an ecological disaster on their doorsteps – a once flourishing resort settlement was transformed into a lethally dangerous zone.

SVL failed to provide resettlement for the inhabitants of Chushka, many of whom continue to live in intolerable circumstances, suffering from cancer, cardiovascular illnesses and other dangerous diseases.

Yugkhimterminal Ltd. and Yugnyeftekhimtransit Ltd., and officials from these companies, have repeatedly been called to administrative account for flagrant violations of legislation related to environmental protection. In June 2011 the activity of the companies for the transhipment of a variety of dangerous chemical substances in the Port of Caucasus was halted for a period of 60 days by the Tamrukski regional court.

Given such a dubious track record, it is concerning that the EBRD has recognised SVL as a company 'which adheres to internationally proclaimed ecological standards and demands for the protection of health.'

Over the years, EBRD investments have regularly been criticised by civil society organisations for supporting dangerous projects that, from the point of view of ecological responsibility, are implemented by questionable companies. The ongoing project with SVL Group provides further evidence in this regard – the EBRD appears willing to continue down the same path, placing commercial interests from the realisation of certain projects higher than the public interest in the countries that it is supposed to serve.

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