

Whose Energy Community? Treaty improvements urgently needed



▲ The Tuzla thermo-power plant, Bosnia and Herzegovina

The EU-backed Energy Community Treaty, signed in 2005 and comprising the western Balkan countries, Ukraine and Moldova, has been widely hailed as encouraging regional co-operation. It also sets a legislative framework for the signatories (also known as the contracting parties) that should contribute, along with the EU accession process, to addressing the environmental and social impacts of the energy sector. Indeed, examples of the Energy Community's added value are its adoption of renewable energy targets in October 2012, as well as a requirement for power plants to comply with EU emissions limits.

However the Energy Community's potential is far from being fully realised. With possible changes to the Treaty post-2016 likely to be adopted this October, what needs to be done to make the Treaty more effective, and to ensure that real communities, real people are not

getting a raw deal from investments being developed and promoted under the Energy Community banner?

Stronger environmental protection essential

The limited scope of the environmental acquis – the agreed environmental rules and principles – within the Treaty is a widely acknowledged weakness. With the Treaty's forthcoming extension, the environmental acquis needs to be expanded to ensure that Energy Community countries do not lag behind the transition in the rest of Europe towards a low-carbon, energy efficient and renewables-based society.

To this end, addressing air and water pollution in the region would be a good start, through the immediate adoption of EU directives on:

- ambient air quality and cleaner air for Europe,
- environmental quality standards in the field of water policy,
- industrial emissions (chapter II of this directive),
- the management of waste from extractive industries.

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Slovenia's shoddy Šoštanj 6 busts the myth of cheap lignite power

Bankwatch has been monitoring and campaigning against the ill-conceived EBRD- and EIB-financed Unit 6 at Šoštanj in Slovenia for several years now. Yet the project never ceases to amaze with its myriad flaws and scandals – and the first few months of 2014 have been no exception.

Debate had already been raging about the project in Slovenia, with ongoing corruption investigations by Slovenia's anti-corruption office and the European Anti-Fraud Office (OLAF) into how the project promoter TES awarded the contract for the project to the French engineering company Alstom. In February 2012 a preliminary report by the Slovene anti-corruption office pointed to a lack of transparency and supervision around the project, as well as a high risk of conflict of interest surrounding certain participants in the tender committee.

Then last June it was revealed that the 600 MW project's price tag had doubled since it was first proposed in 2006. A project that started at an estimated EUR 600 million had by June 2013 risen to EUR 1.44 billion. So much for lignite being cheap – and that's without any external costs such as health being added into the calculations.

However in January this year it was reported that the plant is likely to run at an annual loss of approximately EUR 50 million per year at the beginning of its operation, potentially leaving Slovenian consumers to pick up the losses. During the latest round of debates and finger-pointing that ensued, Slovenia's prime minister, Alenka Bratusek, stated that "we don't have the privilege to decide whether this project can still be stopped. The data we have show halting it would be more expensive than completion."

While the EIB – which lent EUR 550 million for the project – has at least belatedly learnt some lessons from Šoštanj with a senior bank source describing it to the Brussels news site Euractiv as 'one of those projects that tends to haunt you', and a welcome change in the EIB's

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This all might sound demanding for countries which are patchily implementing even their current obligations, but in any case they will have to be implemented by countries seeking to join the EU, so the only question concerns the timeline. And let's not forget as spring arrives that people in the region are already paying heavily for pollution. Addressing the increasingly horrendous air quality in cities such as Pristina, Tuzla and Pljevlja, in which people are losing years of their lives due to highly polluting emissions from coal-fired power plants, would not only save lives but also money.

The World Bank estimates that Kosovo currently has 835 early deaths per year and estimated direct costs of around EUR 100 million annually due to air pollution, while a recent study estimated that in the Tuzla region in 2013 pollution from coal caused a loss of around 4900 years of life, 131,000 lost working days, 170 hospitalisations due to heart and respiratory illnesses and around EUR 61 million in economic costs.

These directives would also put in place a minimum level of safe and responsible management and recovery of extractive industry waste throughout the region and would further help to close the existing, so-called 'thermal efficiency loophole'. This loophole exists due to the fact that even though Energy Community countries have committed to comply with limits on emis-

sions of sulphur dioxide, nitrous oxide and dust from power plants by the end of 2017, because they have not committed to a minimum thermal efficiency for power plants under the Energy Community Treaty, a high level of pollution can still be produced per unit of energy produced due to the low efficiency of the plants.

The inclusion of these directives into the Energy Community is a matter of creating a level playing field for widening the EU electricity market. Countries wanting to participate need to play by all the rules, not just some of them, otherwise the companies producing and selling electricity have an unfair advantage, while the public and environment pay the costs.

Changing the institutional setup

Many of the Treaty obligations have so far not been well-implemented by the contracting parties, and one of the reasons for this is the lack of monitoring and enforcement capacity of the Energy Community secretariat, especially in the fields of environmental and social protection.

Just one specialist covering environment issues and one person for both oil-related and social issues can hardly bring about the desired results. In addition, there is a lack of ownership over the Energy Community among the people whom the Treaty is supposed to serve. One way to address this is to allow civil society representatives from the environmental, social and

industrial sectors to be present as non-voting participants or observers in the Energy Community's regular meetings.

Independent enforcement and infringement procedures

The Energy Community Treaty currently provides a dispute settlement mechanism whereby final decisions are taken by a political body, the Ministerial Council. Proposals for a separate Court, similar to the European Free Trade Area court, have been put forward. If this is implemented, the Court should remain independent from the contracting parties in order to avoid politicisation, have the last say in decisions rather than being subject to other Energy Community bodies and should give the environmental acquis as much priority as is given to the energy acquis.

Getting to grips with corruption

At the same time, it is difficult to conceive how the gap in implementing the Energy Community can be closed without also addressing wider issues of corruption and the rule of law in the Community countries.

Planned coal projects in the western Balkans are not just bad for the climate and people's health – they're also riddled with attempts to bypass or bend tendering procedures. While far from perfect, including the EU directive on public procurement in the revised Energy Community Treaty would at least help ensure that public tenders take place in the construction of energy infrastructure.

A further reason why energy efficiency and renewables are not making the headway that they could in the region is because entrenched energy companies still receive subsidies. The Energy Community's current provisions to prevent state aid are not clear enough or well-enough implemented, and need too to be improved.

In short, all of the areas above need to be improved if the Energy Community is to flourish beyond merely serving the business community and, in the near future, start to make a difference for real communities currently suffering acutely when it comes to energy provision.

Read more: A briefing from European NGOs on the Energy Community Treaty extension is available in pdf at: http://www.env-health.org/IMG/pdf/future_of_the_energy_community_-_policy_briefing_20feb2014.pdf

KEY FACTS ABOUT THE ENERGY COMMUNITY

The Energy Community brings together Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Moldova, Montenegro, Serbia and Ukraine with the stated goal of extending EU internal energy policy to south east Europe and the Black Sea region in order to build a legally-binding framework. The Treaty aims to create a stable regulatory and market framework in order to:

1. Attract investment in power generation and networks;
2. Create an integrated energy market allowing for cross-border energy trade and integration with the EU market;
3. Enhance the security of supply;
4. Improve the environmental situation in relation with energy supply in the region; and

5. Enhance competition at regional level.

The Treaty establishing the Energy Community was signed on 25 October 2005, entered into force on 1 July 2006 and concludes ten years after the date of entry into force. In October 2013, the Ministerial Council of the Energy Community decided to extend by ten years the Energy Community Treaty.

Currently, a High Level Reflection Group is evaluating the institutional set-up and working methods of the Energy Community and will report in June 2014 to the Ministerial Council with suggested improvements. The first step was an online consultation, which took place between December 2013 and February 2014. 38 online questionnaires were submitted during this consultation, with the majority coming from civil society (24).

new energy policy steering the bank away from coal, the same cannot be said of others. The EBRD – which lent another EUR 100 million for Sostanj 6 – has to our knowledge never admitted that it made a mistake by financing the project, although it too at least changed its energy strategy in late 2013, making it much more restrictive on coal investments.

But a final point that never ceases to amaze when it comes to Šoštanj is how Slovenia's south-east

European neighbours don't seem to be learning any lessons from it at all, instead ploughing on with plans to build coal and lignite plants as if nothing ever happened.

Plomin C in Croatia; Stanari, Ugljevik III, Tuzla 7 and Banovici in Bosnia and Herzegovina; Kostolac B3, Kolubara B and Nikola Tesla B3 in Serbia; Mariovo in Macedonia; Kosova e Re in Kosovo and Pljevlja II in Montenegro: all are claimed – without any publicly available

justification – to be cheaper than the alternatives. All suffer from the same unwillingness by governments to accept that times are changing, and to analyse the real costs and benefits of various forms of energy production with open minds and ears.

Instead of ignoring or insulting voices which question lignite dependence and put forward new ideas, the region's governments must use their imaginations to make use of southeast Europe's plentiful

potential to leapfrog into an energy efficient, decarbonised twenty-first century. Failure to do so might seem cheaper now, but, as Šoštanj shows, the public and governments will pay heavily later.

Read more: Comprehensive background information on the trials and tribulations of the Šoštanj 6 project is available at: <http://bankwatch.org/our-work/projects/sostanj-lignite-thermal-power-plant-unit-6-slovenia>

Local development and investments in resource extraction rarely go together hand in hand. Bankwatch's Media coordinator David Hoffman reports back on a recent visit to the EBRD sponsored Patos Marinza oil field in Albania. The case provides valuable lessons for the current revision of the EBRD's safeguard policies.

I first visited Albania in 2007. I went there to dig a bit more into a thermal power plant financed by both the World Bank and the European Bank for Reconstruction and Development near the coastal town of Vlore, a popular tourist destination. In spite of fierce opposition from locals and formal grievances lodged with the investors, the power plant was constructed anyway, and now sits unused, collecting cobwebs and interest on the country's outstanding debt repayments. Seven years on, this bank touted state-of-the-art plant is said to be still undergoing testing.

Things have changed rapidly, though, in and around Vlore: haphazard construction continues unabated, with once towering beachfront hotels demolished to make way for equally large, yet apparently unused, condominiums. The shift, I was told, coincides with the shifting political landscape and the subsequent patronage to the favoured property developers of the moment.

But the more things change, the more some things stay the same. Fast forward more than half a decade, and both the EBRD and IFC are at it again, financing another controversial energy project near Vlore: the extraction of oil at the Patos Marinza fields by the Canadian company Bankers Petroleum.

Patos Marinza is one of the largest, and oldest, onshore oil fields in Europe. Oil was first discovered in 1928 and, because of this long history of extraction, the area around Patos Marinza suffers from heavy pollution. That's why a portion of the loan from the banks is intended to clean up the area – and typical of the EBRD, its loan is called the 'Patos-Marinza Environmental Remediation and Development' project, even though just USD

Oil casts long shadow over local people in Albania

6 out of 100 million extended to the company is to be used for remediation, and hardly any of that has even been drawn.

Our visit revealed that while Bankers had done quite a bit to improve its facilities for extracting oil, it wasn't immediately clear what was being done to benefit both the environment and the locals living in the immediate proximity of the oil wells.

Making the unseen visible

Just as in the case of the power plant at Vlore, locals have lodged a formal complaint at the World Bank, alleging among other things that Bankers drilling activities have led to increased seismic activity. An investigation by the IFC's Compliance Advisor Ombudsman is ongoing, and, in the meantime, a formal working group has been established to investigate the source of the increased seismicity.

But what struck me most about the attention being paid to issues happening underground (and, for the most part, unseen) was the conditions it created for inaction on the very visible unemployment and pollution blighting the residents of Patos Marinza – issues that residents repeatedly raised during the trip.

And if Bankers security had had its way, the issues would have remain unseen: shortly after arriving, we were unwelcomingly escorted out of the area by a caravan of security vehicles.

Unemployment

Prior to the heavy-handed guards removing us from the villages, we spoke with about 20 residents in the nearby village of Kallmi, all of whom were unemployed. A former employee of the state-owned oil company Albpetrol, from whom Bankers is taking over the oil fields, explained that men who had technical training and worked in the fields could not find work with Bankers, complaining that 'hundreds' had sent CVs not only to Bankers but also the different

subcontractors building related infrastructure such as roads.

When it was noted that Bankers has a hiring policy in place to give preference to former Albpetrol employees, the man dismissed it, reiterating that he didn't know of any former colleagues now employed by Bankers. Another migrant worker explained that, upon returning from Greece, he had nowhere to send his children because the school was in such disrepair.

These types of investments – roads, schools and the like – came up often as the kinds of social programmes that Banker's should support. As one man put it, social programmes 'that made sense.'

He referred to his arrangement with Bankers, where he rents the company land of oil extraction, and they in turn teach him how to care for tomatoes. The programme is of little use, however, since the man already knows how to care for tomatoes, and he no longer has any land on which to grow the tomatoes. Along with other projects deemed inappropriate, such as the recently-constructed health centre and a programme for pruning trees, what the community wants and what the company constructs are entirely two different things.

There is no god that could live here

Even after just a few hours on site at Patos Marinza, the effects of breathing polluted air were noticeable: discomfort in the throat, a slight irritation resulting in eyes watering. For those who call the area home, the situation is taking its toll.

Locals in Kallmi complained that there are significant amounts of air pollution, particularly early in the morning, and in the neighbouring village of Jagodina, other residents confirmed recurring 'heavy' air in the mornings, leading to problems with breathing. Locals say that

KEY FACTS

- The Patos Marinza oil fields cover 178 square kilometres and have been in production since 1930.
- EBRD and IFC have each provided the following amounts:
 - May 2009: USD 5m environmental remediation loan (3m drawn to date), USD 50m loan, CAD 15.6m equity
 - April 2013: extending loan by USD 50m and borrowing facility from October 2015 to September 2020

an inoperable pipeline leaks methane, and that the slag pits evaporate in the summer, further deteriorating the air quality. EBRD project information states that "Bankers has plans to implement a sludge treatment plant and plans to empty the sludge currently contained in the unlined sludge pits once this facility is in place. Following the development of a sludge treatment plant the sludge pits will eventually be emptied and remediated."

When asked about the conditions of the slag pits, one man alluded to an Albanian saying, 'There is no god that could live there'.

Lessons learned for future 'environmental and social' lending at the EBRD

Colleagues from Albania who were present during our trip to Patos Marinza presented our findings in late February at a public consultation meeting held in Sofia concerning the current review of the EBRD's environmental and social policy. Hopefully the Patos Marinza case will provide some lessons learned for the bank as it moves forward in revising and finalising its new policy in the next couple of months. Otherwise it is possible that the next trip to Albania will be to visit another environmentally and socially-destructive EBRD energy investment.

Find out more: The original blog post on which this article is based contains a slideshow of images and video footage from the project area, available on the Bankwatch website at: <http://bankwatch.org/news-media/blog/albania-oils-history-casts-long-shadows-over-locals>

Three companies shortlisted for Montenegro lignite plant – but Pljevlja needs a clean-up, not more pollution



▲ The Pljevlja plant and mine

Pljevlja's 210 MW lignite power plant, operating since 1982 in northern Montenegro, has caused controversy since the beginning of its lifetime. Even back in late '70s Yugoslavia when the project was being planned, residents succeeded in pressing for the chimney to be taller than planned (250 metres instead of 200 metres) in an attempt to ensure that the plant's pollution rose above the hills surrounding Pljevlja and dispersed further away.

Unfortunately it didn't work. Pljevlja's location in a depression surrounded by hills at around 760 metres above sea level makes it highly prone to smog. To make things worse, initial promises to incorporate district heating into the power plant – in order to minimise the need for households to burn lignite – were not kept. So residents now have the worst of both worlds: a power station pumping out health-damaging pollutants, but which does not even heat their houses.

Nor are the town's chimneys the only source of air pollution. The massive Jagnjilo spoil tip, consisting of an estimated 70 million tonnes of marl waste dug out from the lignite mine causes dust to blow around on windy days, as does the Maljevac ash pond, which is often not adequately dampened with water. People in Pljevlja complain of a high rate of illness, especially

in the village of Zbljevo next to the ash pond.

The pond is also just a few metres from the nearest houses and the dam holding back the ash appears to be in danger of failure; stabilisation works have been ongoing but people living just metres away downstream have been refused compensation that would allow them to move.

There should, in theory, be a light at the end of the tunnel, as Montenegro's commitments under the Energy Community Treaty mean that the existing plant should either close by 2018, undergo further retrofits to bring it into line with the EU's Large Combustion Plants Directive, or continue to run but only for a maximum of 20,000 hours, spread over an as yet undefined period.

However, there are two 'buts'. The first is that the Montenegrin government has been far from clear about whether it is actually planning to close the plant on time. Some documents say 2025, and the country's draft Energy Strategy even mentions 2030. The second 'but' is that the government and its partly state-owned electricity generation company EPCG are bent on constructing a new 220 MW unit at Pljevlja.

Hey presto!

The new unit is at an early stage of the permitting process and does not yet have an environmental permit, but a lively – if rather lacking in firm criteria and deadlines – procedure is ongoing for the selection of a company to construct it. Of nine companies which submitted prelimi-

nary offers, there are now three shortlisted – China's CMEC, Powerchina Hubei Electric Power Survey & Design Institute and Skoda Praha, a CEZ subsidiary from the Czech Republic.

Once a company is finally selected, the plan is to make an intergovernmental agreement with the country's government and approve a special law in Montenegro to ratify it, and hey presto – the Montenegrin government says that this means it does not need to conduct a regular tender process.

As well as the selection procedure for choosing the company, there are an abundance of other issues raising concerns.

First of all, it is unclear whether the plant is really needed. With production at Montenegro's beleaguered Podgorica Aluminium Plant KAP greatly diminished and the future of the plant in doubt, Montenegro's future electricity demand has decreased. This makes it all the more questionable whether it is reasonable to risk Pljevlja residents' health for the sake of energy for export.

Greenpeace and the University of the Stuttgart have carried out a predictive analysis of the impact of the planned thermal power plant on people's health, based on the technical parameters for predicted emissions provided by the government. The results show that the new unit could cause 16 premature deaths per year, or 622 premature deaths over the lifetime of the plant, with a total of 160 years of life lost.

The reality might yet be even worse, as several of the offers made for Pljevlja II are not even

in compliance with the parameters set out by the Montenegrin government for emissions and efficiency level. As of 2018 all new power plants in the countries covered by the Energy Community Treaty, including Montenegro, must comply with the EU's Industrial Emissions Directive. As power plants take several years to build, in practical terms this means that they must comply already now during the licensing phase.

Yet while all the shortlisted companies claim to offer technology which meets EU standards, according to information published by the Montenegrin government in July 2013 about the offers, only one of them in fact does. Moreover, none of them are compatible with the EU's Best Available Techniques provisions on thermal efficiency, meaning that for the same amount of energy, more fuel must be burnt and therefore more pollution is produced overall.

This is a common problem among planned lignite plants across the region and it is now to

be hoped that the Energy Community and EU institutions will take an active role in ensuring that sub-standard plants are not built now only to have to be retrofitted in a few years.

Tapping into and enforcing clean energy potential

Furthermore, although the Energy Community and EU institutions are always reluctant to influence country's energy mixes, pro-active enforcement of the Energy Community countries' renewable energy and energy efficiency targets is needed to help move the countries away from lignite and large hydropower dependence. In this respect February's move by the Energy Community secretariat to open dispute settlement cases against several countries – including Montenegro – for failure to adopt national renewable energy action plans was a positive first step.

As well as having ample scope for improving energy efficiency, mainly by decreasing the

use of electricity for heating and cooling, Montenegro offers significant potential for both solar and biomass energy.

According to the country's draft Energy Strategy, the theoretical potential of solar radiation is estimated at about 20 PWh/year in the country as a whole. For wood biomass, the Pljevlja area offers particular opportunities, though sustainable forestry must be a precondition for any such activities. According to the draft Energy Strategy, waste from the wood processing industry alone currently amounts to an equivalent of 262 GWh per year in Montenegro currently.

If the country really wants to prove that it is a worthy candidate for EU membership, and an 'ecological state' as its national constitution claims, it is time for Montenegro to clean up the legacy of its old energy and industrial facilities, consign lignite to the dustbin of history, and make use of its extensive energy efficiency and renewables potential.

Bosnia and Herzegovina lignite project triggers official complaint to the Energy Community

While governments in south-east Europe have been talking about building new lignite power plants for years, the only one under construction to date is Energy Financing Team's (EFT) 300 MW Stanari plant in the Republika Srpska entity of Bosnia and Herzegovina. Rather than serving as an inspiration to others in the region, the project is an example of what not to do, as borne out by an official complaint submitted in January by NGOs Center for Environment from Banja Luka and ClientEarth to the Vienna-based Energy Community Treaty secretariat.

The complaint shows that Bosnia and Herzegovina is failing on its obligations under the Energy Community Treaty by permitting the Stanari lignite plant near Doboj to pollute two to three times more than the EU's Large Combustion Plant Directive (2001/80/EC) allows. Energy Community countries such as Bosnia and Herzegovina are bound to implement this directive.

Bosnia and Herzegovina's failure is all the more serious considering that from 2018 the Energy Community countries have committed, for new plants, to enforce Chapter III of the EU's Industrial Emissions Directive (2010/75/EU) that replaces and is stricter than the Large Combustion Plants Directive. Under the legislation, Stanari counts as a new plant, so investments may have to be made into upgrading the plant almost as soon as it starts operation.

Center for Environment also argues that Bosnia and Herzegovina has breached its obligations relating to the project's environmental impact assessment, as the changes in the project made since its environmental permit was issued are so large that they require a new assessment, which never happened.

Construction by Chinese contractor Dongfang started in 2013 but the project has been under development for many years, and has undergone a change of technology and capacity.

After the first environmental permit was issued in 2008, the project was changed from 410 MWe to 300 MWe, and from pulverised coal with supercritical steam parameters to subcritical steam parameters in a circulating fluidised boiler.

The Ministry of Environment in Republika Srpska argued during a meeting with NGO representatives in 2012 that smaller capacity equals smaller impact, that everything else in the project stayed the same, and thus that a new assessment was not needed. However this later turned out to be untrue, as closer examination of the environmental permits revealed a change of boiler technology and the implementation of an unusual dry cooling system, that lowered the net thermal efficiency from 43 to 34.1 percent – very low for a new plant. So, while there will be less power being generated, for each unit of electricity there will be higher emissions.

While it remains to be seen what will happen at Stanari as a result of Bosnia and Herzegovina's failure to abide by its obligations, the case should serve as a warning for the numerous other lignite power plant projects planned in the

western Balkans. Although nothing is known as yet of other cases where the emissions levels allowed in new permits are as blatantly non-compliant with the Large Combustion Plants Directive as at Stanari, there are still plenty of reasons for concern.

In Bosnia and Herzegovina alone, for the Banovici plant near Tuzla no emissions limits are stipulated at all in the environmental permit (only air quality limits), while for the Tuzla 7 plant the emissions limits are in compliance with the Large Combustion Plants Directive, but not with the Industrial Emissions Directive. In the case of Ugljevik III near Bijelina, the Industrial Emissions Directive limits are cited in the permit, but the environmental assessment provides no assessment of whether the technology proposed will actually enable the plant to meet those limits.

Meanwhile, in neighbouring Serbia, the Kolubara B emissions limits are non-compliant with the Industrial Emissions Directive, and similar problems look likely for the upcoming Kostolac B3 permit, as well as for the Pljevlja II plant in Montenegro.

From a global point of view, these are effectively trifling matters, as there is no filter in the world that stops lignite from being anything but unacceptable in terms of its climate impact. But people in the western Balkans ought to be concerned for both their lungs and their budgets.

Lax pollution limits mean pollution-related health problems in cities like Tuzla will be here to stay, while the cost of upgrading plants to adhere to the Industrial Emissions Directive may finally take an axe to the persistent idea that lignite as a power plant combustion fuel is cheap.

The good, the bad and the uncertain: the new energy policies of Europe's public banks

The European NGO coalition Counter Balance has recently published a short overview of the new energy policies now in place at the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB). Both banks' new policies were finalised towards the end of 2013 following extensive consultation with stakeholders from the energy sector, civil society and academia.

The policy reviews took place amidst mounting concern over the continuing gap between dirty and clean energy financing around the world. The climate change threat intensified in 2013 with the latest United Nations climate report issuing yet more stark warnings of the inevitability of a 2°C rise in global temperatures by the end of the century. Reflecting on the urgent governmental and financial action required, the report's authors warned we are now at "five minutes before midnight".

Also influencing the policy debate, however, were some significant global investment announcements signalling that support for fossil fuels is starting – finally – to wane.

According to the International Energy Agency, fossil fuel subsidies rose by almost 30%, to USD 523 billion, in 2011. At the same time, the UN Environment Program warned that global investment in renewable energy totalled only USD 257 billion in 2011.

Echoing this general pattern, while the EIB and the EBRD have both been increasing their renewable energy and energy efficiency investments in recent years, these strides forward have been undermined by deep, consistent support within their energy portfolios for oil, gas and coal sector projects.

This international public bank support for climate killing fossil fuels ensures that such projects receive a clean bill of financial health – private investment can, and very often does, follow the lead of the public banks, in fact usually providing substantially more project finance.

Change, though, was in the air in 2013, centering most notably on a growing number of global commitments to cease public financial support for coal-fired power plants. Ahead of the finalisation of the EIB and EBRD policy reviews, various 'coal breakthroughs' took place. US presi-



dent Obama announced an end to US taxpayer support for overseas coal plants, a commitment shared by five Nordic countries and – later in the year – by the UK.

Not only were these welcome, and long overdue, moves in themselves, but they signalled a new found governmental commitment to real climate action. Moreover, the announcements pointed also to a real moment of opportunity vis-a-vis the energy lending of the public banks, as these same countries have shareholding and voting power within the EIB and the EBRD.

How then would the new EBRD and EIB energy policies shape up, especially in the wake of the July 2013 announcement from the World Bank that it would from now on be restricting funding for new coal plants in developing countries (except "in rare circumstances")?

The 'Good'

In their finally approved energy policies, both the EIB and the EBRD committed to **restrict future financing of coal-fired power plants**, but in different ways that see the EIB forging a more progressive, accountable and climate-friendly path.

While it will still be possible, for instance, under the **new EIB energy policy** for a proposed fossil fuel power plant project on a small island with no feasible mainland energy connection to be financed by the EIB, the overwhelming EIB trend in terms of power generation is positive:

the new EIB energy policy practically eliminates financing to the most carbon intensive power generation projects.

Key to this step forward by the EIB is a new 'carbon intensity' metric – the Emissions Performance Standard (EPS) will be applied to fossil fuel generation projects and will rule out EIB investments when carbon emissions exceed 550g of CO₂ per kWh. This means in practice that most coal power plants can no longer be financially supported by the EIB unless they co-fire at least 25 percent biomass or are high efficient co-generation installations. This 550g/kWh limit laid down in the EPS means effectively that the EIB will only be able to finance natural gas fired plants, and there is the prospect of this standard being strengthened in 2014 when the EU may drop the limit to 350g/kWh to reflect best in class gas plants.

The **EBRD's new energy policy** also sees it restricting coal finance, with a commitment not to finance any new coal-fired power plants "except in rare circumstances, where there are no economically feasible alternative energy sources." No EPS has been introduced by the EBRD, and a short list of criteria will decide whether the bank extends funding support at both new and existing coal plants, including: is the plant the least carbon-intensive of realistically available options?

Both banks' new approaches to coal plants would – on paper – rule out their involvement in

controversial projects such as the Šoštanj lignite power plant in Slovenia (both recently invested over 600 million euros in Šoštanj), and a forthcoming investment decision for a major lignite power plant in Kosovo will be an important indicator of the robustness and ambition of the EBRD's new approach to coal.

The new EIB policy also puts an expanded emphasis on **energy efficiency**. Where previously EIB funding for energy saving schemes was aimed at technical assistance on smaller projects, new energy lending criteria will allow the EIB to start extending loans directly to bigger regional and national efficiency initiatives.

The 'Bad'

Significant progress on coal lending by the EIB and the EBRD in their new energy policies should not disguise the fact that both remain committed to providing support to the fossil fuel industries. The policies may be presented with buzz terms such as 'supporting low carbon transition' very much to the fore but, for example, financing for major oil and gas pipelines and associated infrastructure is set to continue in Europe and beyond.

Hydropower projects involving dams of all sizes, including 'large' dams over 10 megawatts,

will continue to be supported by both the EIB and the EBRD. Not only do large dams, including those financed by the two banks in recent years, have major negative environmental and social impacts, but the banks will also continue to categorise such projects as renewable energy investments. This remains a highly problematic definition of renewable energy due to the high levels of greenhouse gases (notably methane and nitrous oxide) emitted by large dam reservoirs.

The 'Uncertain'

Both the EIB and the EBRD have refused to rule out future funding support for **shale gas projects** in spite of major question marks over the financial viability of shale gas development and a wide range of potentially calamitous impacts for communities and the environment linked to shale gas extraction.

A number of national level bans on shale gas development currently exist across Europe, but governments in countries such as Poland, Romania, the UK and Ukraine appear convinced by this unconventional fuel. Involvement by the banks in a further fossil fuel sector would be yet another brake on their clean energy ambitions

and also be highly controversial given the strong public concerns about shale gas already being witnessed across Europe.

Both banks will continue to finance projects in the **nuclear sector**. In theory the EIB would consider funding for almost any nuclear industry project, provided they meet certain standards and have been approved by the Euratom agency. However, the bank has refrained to do so in recent years

The EBRD remains committed to not provide finance for new nuclear power plants, but will continue to consider funding for safety improvements at operating plants as well as for radioactive waste management and the decommissioning of nuclear facilities. This approach has been criticised by campaigners who say that via such lending the EBRD does in fact provide vital funding for the industry that has led to new reactors being built or old ones being extended beyond their intended lifetime.

Find out more: Counter Balance's fact sheet 'The good, the bad and the uncertain', providing links to the new EBRD and EIB energy policies, is available in pdf at: <http://www.counter-balance.org/the-good-the-bad-the-uncertain/>

Where's Plan B for Kosovo's energy sector?

Ideas about the construction of a new lignite power plant in Kosovo have existed since the end of the 1980s, and even the current Kosova e Re proposal – scaled down to 600 MW from the original 2100 MW – has been around since 2009. It is being touted by the Kosovo government, the World Bank, USAID and the European Commission among others as the only realistic option to replace the ageing and heavily polluting Kosovo A power plant.

So imagine our surprise when at KOSID's recent International Conference on Sustainable Energy Options for Kosovo none of the decision-makers present – including from the World Bank, KfW, USAID and the EBRD – was able to tell us the most basic information about the planned, highly controversial new plant.

Among the burning questions people continue to have about Kosova e Re – how much will electricity prices for households rise as a consequence of the project? Kosovo's Minister of Economic Development, Fadil Ismajli, was not able to say, explaining that it depends on the production costs. How much are they? It is not yet known. What will be the plant's efficiency level? Again, not known – the exact technol-

ogy will be defined only in a later stage of the tender procedure.

For a plant that has been planned for more than four years, astonishingly little seems to be known about it other than that a World Bank environmental and social impact assessment is inching forward, and that a 'request for proposals' might be launched next month in April to shortlisted bidders for the project. But why should we care? As we oppose the construction of a new lignite plant in Kosovo, shouldn't we be glad to see that the project is going so slowly?

In fact, since the debate about Kosova e Re can not be separated from the wider question of securing a sustainable and affordable energy supply for Kosovo, we're extremely concerned.

Institution after institution has been putting most of its eggs in one basket – the increasingly shaky 'new lignite' basket – and no one seems to have a Plan B. Even the project which more or less everyone agrees needs to be carried out – the rehabilitation of Kosovo B to bring it into line with the EU's Industrial Emissions Directive – is not being given as high priority as the construction of an expensive new plant.

When we've warned that Kosovo needs a diversified and environmentally sustainable energy supply with massive efforts put into energy efficiency, we're told that we're being unrealistic – even though about 40 percent of Kosovo's energy produced today goes unac-

counted for through 'technical and commercial losses'. But now who's unrealistic? It's 2014 already, and how is a 600 MW plant with unspecified technology and production costs going to be built by 2018, when the Kosovo government has committed to close the Kosova A plant?

With unknown costs to households, and with electricity tariffs already a highly sensitive issue in Kosovo (as witnessed by lively protests last spring related to poor metering), it seems that the assumption that the project will go ahead is on shaky ground. Such considerations seem to represent a blind spot for those promoting Kosova e Re.

Developing a Plan B will require political will, resources and dedication, but there are more and more resources available to do this. A wind atlas of Kosovo has been developed and investors have put forward a range of viable wind projects. The prices of utility-scale solar are dropping rapidly, and increasing regional integration offers opportunities for greater grid flexibility and exchange of electricity with neighbouring countries like Albania.

If as much time and money is put into Plan B as has been put into the Kosova e Re lignite project, we firmly believe it can be done.

Find out more: Keep up to date with Kosovo coal developments via the website of KOSID, the Kosovo civil society consortium for sustainable development: <http://www.kosid.org/>

'Fools and liars' – major new report slams mega-dams, as tensions rise over Georgia's Khudoni project

A new report published on March 10 by a team of researchers from the University of Oxford, based on the largest ever study of large hydroelectric dams (245 in 65 countries) has found that in most cases large dams are economically not viable and few, if any, will realise their planned benefits. The study assessed the costs, construction time, and benefits of all large dams built around the world since 1934, and further concluded that the severe cost and construction delays that so often dog large dams (defined in this research as those that exceed 15 metres in height) mean they can be seriously damaging to the economies that attach so much hope to them.

In an interview with the Georgian English language media site *The Financial*, study researcher, Dr Atif Ansar, Associate Fellow of the Saïd Business School at the University of Oxford, was uncompromising in his assessment of Georgia's plans to realise the massive Khudoni Hydro Power Plant on the Inguri River in the remote Samegrelo-Zemo Svaneti region.

According to Dr Ansar, as cited by *The Financial* on March 10: "Khudoni is huge. It is planned to have a 200-metre tall concrete double-arch-gravity dam wall along with 3 turbines with a nominal capacity of 233.3 MW each having a total capacity of 700 MW making it one of the largest dams under construction. As far as I know, the project was planned to be started in the early '80s and it has not yet been started. This is a typical early warning for a dam disaster project – to be delayed and delayed. As a general rule of thumb, many smaller, more flexible projects that can be built and go quicker, and are more easily adapted to social and environmental concerns, are preferable to high-risk dinosaur projects like conventional mega-dams".

The Khudoni project, on the planners' table for close to forty years now, is one of a trio of large hydropower plants – the others being Namakhvani and Paravani – that the Georgian government is pinning the country's energy future on, with a major emphasis on exporting overseas. These aims have been strengthened by long-standing support from the likes of the World Bank and other international financial institutions, with things now starting to come to a head, as Bankwatch has been reporting on intensively in the last nine months during our on the ground collaboration with local communities facing resettlement to make way for mega-dams.

We have seen shoddy consultations and now – increasingly – intimidation of local communities protesting the construction of these vast projects: on March 8, around 500 villagers staging a road block in the Adjara region were violently dispersed by police and special forces. The villagers had blocked the road to prevent the construction of



▲ Since summer 2013, public concern and anger over mega-dam initiatives has been visibly growing

a tunnel for the 185 MW Shuakhevi hydropower plant that the EBRD is considering to finance with a loan of up to EUR 63.7 million.

And while tensions are rising within Georgian communities, as Bent Flyvbjerg, principal investigator for the Oxford University dam study, reminded in BBC coverage of the new report, dams "are not carbon neutral, and they're not greenhouse neutral". The climate change impact of these vast infrastructure projects, often obscured by the promoters of these supposedly 'clean energy' sources, has much wider reach – just one aspect of mega dam construction involves extensive flooding of vegetation under dam reservoirs produces large volumes of methane, a greenhouse gas recognised to be roughly 20 times more potent than carbon dioxide.

Build and be damned

What is to explain the rationale and thinking behind such economically questionable, precarious investments? Again, as quoted in *The Financial* this month, Dr Ansar was outspoken as to underlying reasons behind the mega-dam drive still controversially taking place in Georgia and elsewhere in countries such as Brazil and China, and across the developing world generally.

"It is unclear," notes Ansar, "why the politicians like to build large dams. There are two reasons in my opinion. One – they are optimistic about the idea, which we call being a 'fool', and two – they are strategically misrepresenting the extra costs, which we call being a 'liar'. People optimistically think that large dams will bring them a lot of benefits and they look at such examples as the Hoover Dam in the USA, which is an often-heard argument in favour of building new large dams. Instead of re-

lying on the outcome of just one project, decision-makers should consider evidence for the entire population. In the case of large dams, the probability of failure dominates. If leaders of emerging economies are truly interested in the welfare of their citizens, they are better off laying grand visions of mega-dams aside."

Georgia and the Energy Community

Georgia is now intent on joining the Energy Community, having applied for membership last year. Its entry later this year (October 2014) is thought to be little more than a formality.

And why not? The Energy Community certainly has as its main goal the widening of the EU energy market, and thus being part of it makes it easier for countries such as Georgia to export electricity to the EU or other Energy Community countries. This would not be a problem – and indeed inter-connection is necessary in principle for a renewables-based system – if all the countries had the same level of environmental and social protection in place, and low levels of corruption, that is, if there was a level playing-field.

However, this is clearly not the case for the Energy Community countries, in part because the Energy Community Treaty does not require them to adopt all of the energy-relevant EU acquis, and furthermore because even for those parts that they are required to adopt, they are not implementing properly. Moreover, local courts don't function adequately, and the Energy Community does not have sufficient capacity nor enforcement mechanisms to change the situation.

All of the Energy Community countries, to varying degrees, have electricity export ambitions, yet at the same time as criticising the lack of implementation of the acquis, the Energy Community is encouraging them to realise bad projects, with initiatives such as the Regional Energy Strategy or the list of Projects of Energy Community Interest. Clearly, bad projects are a problem whether the electricity generation is for domestic use or for export, but it seems particularly unjust that the environment, people's health and their whole way of life have to suffer for projects that don't even produce electricity that will be used locally.

Regretably, as things now stand, Georgia's controversial, one-track mega-dam drive appears very much fit for Energy Community purpose.

Read more: Keep up to date with all the latest Georgian hydro developments via the Bankwatch website, at: <http://bankwatch.org/our-work/projects/hydropower-development-georgia> The new Oxford University report 'Should we build more large dams' can be downloaded at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2406852

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