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Operations **suspended** at one Ukrainian **nuclear unit**, as wider **safety** doubts persist

Citing 33 safety issue failings, at the end of April Ukraine's nuclear regulator took the decision to suspend operations at Unit 2 of the South Ukraine nuclear power plant by a May 12 deadline, the date marking the end of the plant's design lifetime. Under the terms of the Ukrainian State Nuclear Regulatory Inspectorate Council's decision, should the state-owned nuclear energy operator Energoatom wish to resume the unit's operations beyond its design lifetime it will have to implement all necessary measures by May 2017.

Yet the same Unit 2 reactor remains part of Ukraine's energy arithmetic for this year's winter period. As the Ukrainian government has no 'plan B', Bankwatch member group the National Ecological Centre of Ukraine (NECU) is concerned that both the operator and the regulator are likely to be under pressure to restart the unit before winter, in spite of the various safety deviations and modernisation measures pending at the unit.

Four nuclear power plants, with 15 reactors, generate almost half of the electricity supply in Ukraine, and the country is almost completely dependent on Russia for nuclear fuel supplies as well as the treatment and storage of two thirds of its spent nuclear fuel.

Yet the welcome South Ukraine 2 decision from the regulator, coming just days after the 29th anniversary of the Chernobyl disaster, has increased attention on the wisdom of Ukraine's ongoing lifetime extension programme for its Soviet-era nuclear reactor fleet – a programme supported by a related 'safety upgrade' programme that involves key financing support from the European Bank for Reconstruction and Development and the European Atomic Energy Community (Euratom) totalling EUR 600 million.

Inside the turbine hall at unit 1 of the Zaporizhia nuclear plant, one of 12 Soviet-era nuclear units up for lifetime extension in Ukraine.

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Repression and carbon lock-in required for security and sustainability?

With construction of the Trans-Anatolian gas pipeline (TANAP) in Turkey getting under way, the Trans Adriatic Pipeline (TAP) consortium awarding contracts for the construction of access infrastructure in Albania, and Russian pipeline plans lagging behind, the Southern Corridor for Azerbaijan's gas exports to Europe is increasingly looking like a done deal. Or at least that is what the project promoters would have us believe. Of course, the Nabucco gas project failed to reach this stage, but South Stream was scrapped last December, two years after the construction of Russian onshore facilities had commenced and just months after the awarding of contracts to foreign firms for the laying of the offshore section.

Meanwhile, the EBRD has now twice postponed a decision on investing half a billion dollars in Lukoil's share in the second development of the Shah Deniz gas field in the Caspian Sea. The EBRD board approval for the Lukoil deal, initially pencilled in for February this year, was first postponed to May and has now been moved to July. It's hard to guess at what official obstacles might still be standing in the way of EBRD decision-makers rubber-stamping the Russian company's involvement in the diversification of gas supply to Europe. Nevertheless, there are various reasons for a public bank not to be going anywhere near Lukoil and the Southern Gas Corridor.

Strengthening Aliyev's authoritarian regime

While the Caspian state has embarked of late on a charm offensive aimed at European leaders involving energy deals and the hosting of international sports events, its premier Aliyev has copied Vladimir Putin's example of clamping down on press and political freedoms. The increasingly authoritarian regime, whose power is fuelled by oil revenues, has jailed nearly one hundred political prisoners, twice as many as Russia and Belarus combined.

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Three of Ukraine's nuclear energy units are already operating beyond their design lifetime, and nine others, including unit 2 of the South Ukraine power plant, have been slated for similar permissions from the state nuclear regulator by 2020.

One of these units granted a ten-year lifetime expansion in 2013 is Unit one at the South Ukraine plant. However, a NECU study published in March this year revealed dangerous vulnerabilities at Unit one, including observed wear in a number of elements in the reactor vessel that already exceeds tolerable levels by a factor of ten.

Moreover, according to NECU, there have been abuses of international law at play in the implementation of the lifetime extension programme.

Reactors one and two at the Rivne nuclear power plant had their licenses renewed in 2010 without proper assessment of the environmental and health impacts in either Ukraine or neighbouring countries, a violation of the Espoo Convention (the Convention on Environmental Impact Assessment in a Transboundary Context) to which Ukraine is a signatory. The Espoo Implementation Committee has gone on the record in recent years to criticise the Ukrainian authorities for their failure to meet their obligations, and it has also emerged that neighbouring countries were not even consulted on the potential impacts of the lifetime extensions, in breach too of conditions attached to the EBRD-Euratom loan.

Bankwatch groups in the neighbouring countries – Bulgaria, Hungary, Romania, Slovakia and Slovenia – have in turn been requesting a more pro-active approach from their governments. Open letters have recently been sent to national environment ministries alerting them to the life extension decisions being taken for South Ukraine Unit 2 (now suspended), followed by Zaporyzhska 1 in December this year.

The neighbouring country groups have also urged their national representatives at the EBRD to push for suspension of the bank's support for upgrading Ukraine's nuclear plants until a cross-border assessment is carried out.

Returning from a Bankwatch fact-finding mission conducted in the last week of April and aimed at assessing the current nuclear energy situation in Ukraine, Bankwatch's Hungarian co-ordinator Ákos Éger, a campaigner at the National Society of Conservationists – Friends of the Earth Hungary, commented: "Our team spent the last few days meeting with representatives from the authorities in Kiev and at the Zaporizhia nuclear power plant, but so far we have received no assurances on how and when Ukraine will involve our countries in the environmental impact assessment process. We hope the next time we meet them is when they come to consult us on these plans."

"Deep and systemic reforms"

Ukraine's ongoing nuclear safety saga should also be seen in the context of the development assistance now being offered by the EU and others in the name of international solidarity. "Deep and systemic reforms" in Ukraine are stated as a key goal, with energy security, supply diversification, transparency and the rule of law in the energy sector high on the agenda.

Yet such ambitions are being put at risk by the lifetime extensions project, not to mention wider European security. Truly "systemic" reforms could be effected by internationally supported efforts to gradually phase out Ukrainian nuclear reactors, with replacement of them by safer and more effective alternatives as well as much-needed, sharp improvements in energy efficiency.

Iryna Holovko, Bankwatch's national campaigner for Ukraine who has closely monitored the 'safety upgrade' programme in recent years, commented: "The nuclear regulator's Inspectorate Council decision on South Ukraine Unit 2 demonstrates that insufficient safety levels can lead to the closure of nuclear units. We were stunned, however, to learn just last week from the Ministry of Energy that indeed our government has no 'plan B' and will fully rely on these ageing units operating beyond their design lifetime. Temporary closures are one thing, but it really is high time for decision makers in Ukraine to start looking into alternatives and planning for life beyond nuclear energy."

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False energy security comes at a huge price

The Southern Gas Corridor is expected to add a mere 10 bcm per year starting from 2020, with that volume projected to double at some stage in the future. The Shah Deniz field, recently dubbed 'gigantic' by the Financial Times, and the significance of Azeri gas has been hyped since the Ukraine-Russia military and gas conflicts reached boiling point in 2014. However, what the diversification advocates are less vocal about is the fact that Shah Deniz's 20bcm constitutes little more than five percent of gas supply to the EU – hardly a game changer in the EU's overall gas supply architecture.

Perhaps the 'gigantic' billing for the Southern Gas Corridor stems from its exorbitant price tag. When compared with other schemes aimed at improving interconnection within the EU to address the needs of the most vulnerable EU member states, for example the EUR 1.5 billion Eastring proposal, the Southern Gas Corridor's investment needs of more than USD 45 billion dollars are hard to justify. At the same time there continues to be huge energy savings potential in the countries most dependent on Russian gas supply in central and eastern Europe. Multi-billion euro investments could be better targeted at reducing the consumption of all fossil fuels in the region, rather than being pumped into yet more fossil fuel lock-in under the guise of switching from coal to gas dependency.

Gas demand continues to fall

Eurogas reports that in 2014 gas consumption in the EU fell by 11 percent since 2013, following ten percent, two percent and four percent declines in 2011, 2012 and 2013 respectively. Brand new gas plants in western Europe are standing idle, but receiving public subsidies for peak supply capacity. Globally, wind and solar energy is forcing coal and gas fired generation out of the market much faster than had been anticipated by energy analysts.

Studies by Bankwatch and others have also estimated that increased gas imports promoted by projects on the European commission's Projects of Common Interest (PCI) list will exceed predicted gas demand in the five scenarios of the commission's own Energy Roadmap 2050, as all scenarios foresee decreases in gas imports. Of the 248 projects on the Commission's PCI list, more than 100 involve natural gas transmission, storage and liquefied natural gas, and at least 15 are aimed at increasing EU gas imports. Regrettably, less attention is given to smart grid projects – projects that can address fluctuations in renewable energy generation as effectively as reserve (mostly idle) gas capacities.

In whose interest?

The question of who makes these vital energy decisions also stands: gas consumers and taxpayers? Countries that need to diversify their energy supplies? Or supplier countries? In the protracted, messy history of competing Caspian export pipeline projects, how did the TANAP/TAP option end up prevailing over Nabucco and South Stream?

While the EU was arguing that South Stream was not in compliance with its competition rules, Azerbaijan and Turkey, together with interested state-owned and private corporations, took decisive strides to advance the option most suitable to them. The selection of TAP as the European export pipeline by the gas producers' consortium at Shah Deniz was the coup de grace to Nabucco, led by mid-sized companies from the countries on the pipeline route.

With Aliyev in the driver's seat, the Southern Gas Corridor can turn for financing to Azerbaijan's USD 34 billion sovereign wealth fund. Nevertheless, European public finance will not only be crucial in the shape of the EBRD's USD 500 million investment in Lukoil's Shah Deniz participation, not to mention likely future investments in TAP, but also through the less visible financial support being extended to hook up south-eastern European countries to major gas pipeline spines.

Gas may be slightly less damaging for the climate than coal. However, the proclaimed coal to gas transition is nothing more than a fossil fuel switch, and nothing less than a climate action fraud.

Some **Arab CSO** aspirations and concerns for the **EBRD annual** meeting

In 2011, the Deauville partnership for Arab countries in transition was signed, expanding the EBRD's mandate to cover the South and Eastern Mediterranean (SEMED) region. Working towards 'sustainable growth' and 'private-sector development', the bank's initial intervention in each of the Arab countries – namely Egypt, Tunisia, Morocco and Jordan – has provided funding, technical assistance and policy dialogue and capacity-building. The EBRD is providing loans, equity investments and guarantees for private and public sector projects in the areas of finance, infrastructure, industry and commerce. By the end of 2014, the EBRD had disbursed a total of EUR 1.5 billion in 53 projects, becoming one of the biggest financial stakeholders in the region.

The EBRD's engagement in the region has so far been focused on four main areas: energy (30.25 percent), financial institutions leasing (27.25 percent), industry, commerce and agribusiness (29.75 percent) and infrastructure (12.75 percent).

As Hildegard Gacek, EBRD Managing Director for the SEMED region, has suggested, "this illustrates our commitment to supporting the countries' transition towards a market-based economy through targeted investments and policy dialogue with the authorities." Others, such as Arab NGO Network for Development, maintain that the EBRD's engagement in the region needs to be well scrutinised, particularly when it comes to social and economic rights and development impacts, as "the economic model with which the EBRD operates often fails to understand and respond to the development challenges of Arab countries."

What are the specific critical issues, from an Arab civil society perspective, pertaining to the EBRD's presence in the SEMED region?

Energy concerns

Energy is a key sector for the EBRD's engagement in the region. For instance, in Jordan, 50 percent of the bank's portfolio is being allocated to the sector. Nevertheless questions hang over several aspects of the EBRD's energy investments in the region, including support to renewable versus non-renewable energy, the environmental impacts of these projects and the engagement of local communities.

In February 2015, despite calls from civil society groups in the region, the controversial Cemex project in Egypt was approved. Concerns raised regarding the project's support to coal despite the availability of renewables, the negative impacts deriving from the release of heavy metals such as mercury and lead and water pollution – these were simply not heard by the EBRD's board of directors. A similar case occurred in Tunisia with the Serinus project, involving significant finance for the development of four oil and gas fields in a protected area in Tunisia. Again local groups' concerns both about the negative impacts deriving from the exploitation of shale gas and the project's water scarcity and radioactivity issues were not taken into consideration.

Underlying these cases are problems regarding the lack of an inclusive and participatory approach in the design of EBRD projects, not to mention the miscategorisation of the projects when it comes to environmental impacts. A study of EBRD projects in the SEMED region shows that they are systematically categorised 'B', meaning that: "the potential adverse environmental impacts on human populations or environmentally important areas (...) are less adverse than those of category A projects (...). These impacts are site-specific; few if any of them are irreversible."

On SMEs support as a role model for social enterprises

At the 2015 annual meeting, and with a specific session, the EBRD intends to look at how support to small- and medium-sized enterprises (SMEs) could become an exemplar for overcoming barriers to the development of social entrepreneurship specifically related to financial literacy, access to finance and regulatory frameworks.

First of all, support to SMEs is critical: in the region they are seen as catalysts for employment creation and income generation. The EBRD, in its four main areas noted above, prioritises assistance to SMEs to help spur job creation and stem high unemployment, especially among young people. Yet, as has been raised by CSOs from the Arab region, such a sectorial approach from the bank is problematic: there is a need for the EBRD to focus on sectors that are a priority within the country itself, and not according to what the bank deems to be the priorities. Indeed, the EBRD's current engagement in this regard is not contributing to the enhancement of the countries' productive capacities, and, as noted by the UK Department for International Development in its Multilateral Aid Review in 2013, "the link between the impact of EBRD's programs on transition, and their impact on people's lives is not always well articulated".

Accordingly, the EBRD should start focusing its intervention in agriculture, industry and services aimed at longer-term employment generation and improved standards of living. For instance, the bank could make an economic and developmental difference by directing its funds to industries that are expected to be of added value in the future, particularly in the manufacturing sector. At the same time, with regard to social enterprises, the concept is highly relevant for the Arab region, particularly given people's movements and initiatives during and after the uprisings, where innovative approaches have been seized and developed. Advancing societal benefits and addressing the root causes of societal problems, dealing with key challenges such as lack of finance, government interference, and the difficulty of registering NGOs – boosting social entrepreneurship further is now needed more than ever.

'PPP mania'

The EBRD is not shy about its preference for the public-private partnership (PPP) model, especially when infrastructure projects are involved, as well as healthcare and energy distribution. The ways in which PPPs are designed (most of the time in order to satisfy the interests of major corporations first, with states and populations subsequently being left accountable to these corporations), and the abuses linked to these practices are issues of great concern to Arab CSOs right now. There is a need for actual accessibility to and affordability of public services, rather than the increased commodification of basic needs and citizens being transformed into public service consumers.

Arab CSO concerns at the meeting will also reflect on the need to further enhance the participatory approach, one that engages civil society groups and local communities not only in project evaluation but in project design that pays due attention to developmental impacts. Greater transparency across the EBRD's operations will also be on the agenda. The opportunity for dialogue is most welcome; to be of any value, the discussion has to be forthcoming and rich.

Georgia's **hydropower** revolution far from **rosy** for **communities**, the environment and the economy

The latest chapter in Georgia's hydropower revolution was concluded recently with the securing of a financing deal for the 185 MW Shuakhevi hydropower plant (HPP) involving a trio of international development banks – the European Bank for Reconstruction and Development, the Asian Development Bank and two World Bank arms, the International Finance Corporation and the Multilateral Investment Guarantee Agency. This USD 250 million funding package seeks to release Georgia's untapped hydropower potential and is one in a series of international investments that have been pitched as vital contributions to Georgia's national energy security and economic development.

Yet, as with other large dams recently built or planned in Georgia, the electricity generated at the Shuakhevi HPP will mainly be exported. As such, it will ultimately strengthen the EU's own energy security rather than deliver significant socio-economic benefits and energy independence for Georgia.

Temporary solutions to national energy security

Hydropower is booming in Georgia. As of 2015, and according to the Ministry of Energy, 16 HPPs are under construction, 14 are in the pre-construction phase, 52 projects are under negotiation while construction on 7 HPPs has already been finalised, including the EBRD funded Paravani HPP.

The capacity of the projects ranges from small HPPs to large scale developments such as the controversial 702 MW Khudoni HPP on the River Enguri in north-west Georgia. Total costs are estimated at nearly USD 4 billion, and many of these projects are receiving financing and technical assistance from international development banks – whether these institutions are fulfilling their mandate to promote sustainable, good governance and corporate performance is one issue that hangs heavily over the recent spate of new Georgian HPPs.

In order to encourage the development of hydropower, Georgia has pursued deregulation of its power sector and streamlined requirements for foreign investors. As with other large HPPs, the Shuakhevi HPP project agreements ensures that the Georgian government purchases electricity for domestic consumption over the three winter months. In the remaining months, the investor – in the case of Shuakhevi a domestic and international consortium including India's Tata Power – is free to sell the electricity in markets and at a price of its choice. Thus, during the spring and autumn high water seasons, the electricity resources generated by the large dams will be exported to neighbouring countries such as Turkey.

The dry winter months, of course, have low water flow and the electricity generated for the local market is unlikely to significantly improve Georgia's electricity balance. Due to low hydropower output in winter, therefore, Georgia will rely further on thermal generation and fuel imports. Moreover, under the new state-enforced guidelines, so-called 'off-take agreements' are valid only for 10 years, after which time investors may opt to export exclusively, leaving Georgia to cope with the challenge of satisfying domestic demand once again.

Perhaps of most concern, according to some Georgian energy analysts, is that in this expected scenario the country will be compelled to purchase electricity from Turkey, at Turkish prices, some of the highest in Europe, thus hitting Georgia's private and business consumers alike.

Unlikely benefits for Georgian citizens

These are not the only economic downsides being stored up, in spite of the Georgian government and foreign investors touting that the new HPPs will bring economic benefits for the country. Indeed, the enticements that have accompanied these dam developments include that the electricity exports will provide important revenues for Georgia and that the projects will provide employment opportunities and taxation revenues for local regional authorities.

However, these views are generally based on financial viability analyses that assess the profitability of projects from the investor's perspective. For most of the projects a social cost-benefit analysis, that would try to determine a given project's public economic contribution, is never carried out.

Thus the public has been told that hydropower-generated electricity exports will improve the national trade balance, yet the reality is that they will not generate fiscal benefits for the country as exports enjoy a zero percent rate of taxation. Equally, alternative, unofficial assessments deem the community benefits of all HPPs – including the Shuakhevi HPP – as being inflated, pointing to exaggerated projections for local budget contributions and employment figures.

AT A GLANCE – HOW THE FLOODGATES ARE BEING OPENED IN GEORGIA

- The Shuakhevi HPP is part of a broader plan to export hydropower-generated electricity and to integrate Georgia more deeply with regional (and EU) energy markets.
- There is no Georgian national strategy for hydropower – only weak environmental safeguards regulate its development.
- Long-term social and economic benefits for Georgian citizens have not been analysed.
- By the time the Shuakhevi HPP starts producing electricity in 2016, construction on several dozen plants will have taken place, inevitably adding to overall environmental and social burdens on Georgian communities.
- To date, there is little evidence to suggest that western countries are willing to fully adhere to rigorous sustainability standards in their quest to enhance their own energy security.
- The Southern Gas Corridor has shown already that EU and international lenders are ready to turn a blind eye to human rights violations in Azerbaijan.

With confident promises of secure employment for up to 800 workers and possibly recruiting the majority of workers from local villages, the promotional spiel of the Shuakhevi HPP promoters offers a case in point. Unfortunately the reality is that, with employment opportunities spanning over the course of construction works, most workers will be hired for the peak phase of the construction and installation and will therefore receive only temporary contracts. In September 2014, one year on from the commencement of the Shuakhevi construction, 293 Georgians had been employed by the main contractor. Of these, 239 people were residents of local villages. This is less than half the estimated number of locally employed workers.

The company has opened a training facility in Shuakhevi and trained around 600 people from site-affected families; 166 trainees were employed by the company. While the training has provided people with qualifications, when construction ends employment opportunities in the area are expected to be minimal, and layoffs will have big impacts on household incomes should workers be unable to find alternative employment.

Weak environmental regulations will bring a deluge of impacts

Most hydropower developments involve environmentally sensitive activities such as water diversion, tunneling and flooding that inevitably affect adjacent communities – and the Georgian projects are no different. Yet the Georgian government has no clear environmental safeguards to regulate the development of hydropower projects. In these circumstances, the projects are supposed to conform to weak national environmental impact assessment legislation as well as the environmental and social requirements of the international financiers.

Compounding matters, and bearing in mind the staggering number of HPPs currently being developed or planned, it is also striking that the Georgian government has no strategic framework to oversee its ballooning hydropower sector. Instead, it reviews projects in an isolated, case-by-case basis, failing to properly assess the overall environmental, social and economic benefits and costs.

As it seeks to maximise its hydropower potential, the government is also prone to planning several dams for the same river basin. The Shuakhevi HPP concession was awarded together with the 6 MW Skhalta HPP, the 150 MW Koromkheti HPP and the 65 MW Khertvisi HPP, altogether comprising the 400 MW Adjaristsqali cascade hydropower project. This cascade will require as much as 34 kilometres of tunneling in order to divert water. Although a Ministry of Environment rule of thumb maintains that 10 percent of the annual water flow needs to stay in the riverbed, environmentalists insist that this minimum flow is not sufficient for maintaining river habitats. When combined, the various HPPs that make up the Adjaristsqali cascade will worsen the environmental impacts on water resources and associated ecosystems. The Khertvisi scheme has now been cancelled due to foreseen environmental risks and impacts on the Machakhela National Park.

The clear problem is that while cumulative impacts are noted in passing in individual environmental impact assessment studies, no combined impacts of these projects has been assessed as part of a broader national hydropower policy.

Moreover, the outsourcing of the state's responsibilities to private sector project developers is proving to be a highly unsuitable approach for assessing and managing cumulative impacts. Concerns over the profound damage to the environment and livelihoods, as well as actual geological structural damage to villages caused by the new hydropower wave, are mounting. Regular community protests against the development of Shuakhevi and Khudoni in particular emphasise the need for a strategic hydropower masterplan and stringent environmental regulations.

A high price for EU energy security gains

With its strategic location at the borders with Turkey, Russia and Azerbaijan, Georgia has an increasingly pivotal role in EU energy security. For ten years now Georgia has been a transit country for the Baku-Tbilisi-Ceyhan pipeline that carries Caspian oil to the European market, effectively avoiding Russia. It may also host a section of the Southern Gas Corridor planned to transport gas from the Shah Deniz fields in Azerbaijan to the EU.

The EU's objectives for the integration of Georgia have been clearly spelled out since the inception of the Eastern Partnership framework in 2009, namely: "enhancing co-operation in the fields of energy, transport and environment contributing to energy security and supply diversification needs for the EU". This initiative reached a milestone in 2014 with the signing of the Accession Agreement and the launching of negotiations for Georgia's accession to the Energy Community.

The EU- and international development bank-backed development of large Georgian HPPs and transmission infrastructure is thus in lockstep with the notion of turning Georgia into a regional electricity trader and a transit country closely integrated with the EU market. Geopolitics are also crucial here: the energy co-operation is part of broader efforts to diminish the influence of Russia and bring Georgia closer to the EU.

Located at the borders with Turkey, the Shuakhevi HPP and its connecting transmission infrastructure are vital planks in the plans to export Georgian electricity to its southern neighbour's market. Shuakhevi and the other plants in the Adjaristsqali cascade have guaranteed access to the Black Sea transmission line that connects the Georgian and Turkish grids and facilitates energy exports. Not suprisingly, this transmission line was also financed by the EU, the EBRD, the European Investment Bank and Kreditanstalt fur Wiederaufbau.

It all adds up for western planners and financiers. The final bill for the Georgian population and environment, though, is still a long way from being finalised.

#SaveGeorgian-NaturefromEBRD-financedDams

In the run-up to this year's annual meeting in Tbilisi, the EBRD has taken to social media, via the hashtag #Georgia15, to invite Twitter users to share "beautiful photos of Georgia with a global audience".

Well, here are just a few, taken during Bankwatch field trips to Georgia in recent years as we have worked with local communities – including the people pictured outside a public hearing in Khaishi in 2013 related to the Khudoni Dam – concerned about the threat to their homes, villages and the stunning Georgian geography from the string of huge dam projects that the EBRD and other development banks are keen to finance.

Pressure mounts on EBRD to quit **Macedonian** dam **folly**

Macedonia's Mavrovo national park is the largest and richest national park in the country and home to the critically endangered Balkan Lynx. The Macedonian government, however, has plans to also make Mavrovo the home for two large and around 20 small hydro power plants.

One of the large hydro power plants, Boskov Most, involves a 33 metre accumulation dam and a power plant with total capacity of 68MW. The project is being financially supported by the EBRD with an initial EUR 65 million. The total project cost had initially been assessed at EUR 85 million, but soon after project preparations began the project sponsor and the bank realised that the project costs were set to almost double. Another large accumulation project, the Lukovo Pole project is under consideration for financial support by the World Bank.

In 2011, when approving the Boskov Most hydro power plant for financing, the EBRD failed to realise that the location of the planned project is in fact a critical habitat vital for the survival of the fragile lynx population in the Balkans. An in house EBRD project complaint mechanism (PCM) report, prepared after a complaint was submitted in 2011 by the Macedonian civil society organisation Eko-svest, claimed that the bank did not follow its own procedures in the assessment of the project's impacts before approving it. The EBRD's Environmental and social policy indeed states that it should not invest in critical habitats unless project impacts can be fully mitigated.

Could the EBRD simply cancel the project upon realising this had happened? Environmentalists believe that the PCM report findings should have sent a clear message that protected areas, such as national parks, are no place for large dams. Currently, project construction has yet to begin, and the bank has not disbursed any financial tranche to the project sponsor. The reason for this was the need to belatedly ensure both that all additional biodiversity analyses were carried out and that all impacts to wildlife and habitats can be mitigated.

The International Union for the Conservation of Nature stated that parks are no place for dams in an official statement from 2014, underlining that the sole purpose of declaring national parks is the conservation of nature. In early 2014, almost 120 scientists from around the world sent an open letter to the EBRD requesting it to step away from the Boskov Most project. However, the plans of the EBRD and the project sponsor were not deterred by these requests from the scientific community and project preparations continued.

In late 2014, the Council of Europe Standing Committee of the Bern Convention decided to open a case file regarding the ongoing construction plans for hydro power plants within the territory of the Mavrovo national park. An on-the-spot appraisal to be organised by the Secretariat of the Convention in late June 2015 will collect additional information in order to prepare draft recommendations that are to be submitted to the Standing Committee at its next meeting in 2015. As a signatory to the Bern Convention, Macedonia would be expected to follow these recommendations.

As too would the EBRD. In its Environmental and social policy, the EBRD is committed to operate in line with international regulations for the protection of nature and the environment. Thus it is expected that the bank ensures the implementation of the recommendations from the Bern Convention Secretariat in the case of Mavrovo national park, even if this would entail stepping out of the Boskov Most project.

A final question remains: is the Bank ready to give up on this energy insignificant project and finally listen to citizens and scientists who consider Mavrovo to be the home of the Lynx and not of dams?

It has been stated by the project sponsor that the Boskov Most hydro power plant would produce electricity primarily for export and, therefore, the project would not bring any benefits by way of decreasing Macedonia's energy dependency. Moreover, the project is intended only for peak energy production, which is already supplied by existing power plants in the country. Compared to a photovoltaic power plant, Boskov Most costs more, but produces less energy, which will anyway be partially lost in transmission.

Concretely, Boskov Most would produce 117.5 GWh of electricity annually and would cost at least EUR 140 million, out of which the EBRD stake is - for now - the aforementioned EUR 65 million. For EUR 65 million Macedonia could gain 97.5 GWh of electricity from solar power.

Is the EBRD ready to admit that major mistakes have been made regarding the Boskov Most project and invest in new renewables instead, which would make a real difference to the country? For now there remains a real risk of initial mistakes begetting more in the future.

Read more: A new Bankwatch briefing on the Boskov Most hydro power plant is available at: http://bankwatch.org/publications/boskov-most-hydropower-plant-project

Where will all that **power** go? New study assesses **extravagant** energy **ambitions** in the western **Balkans**

Hardly a week goes by without the media in the western Balkans reporting on some progress with a coal or hydro power plant project or reporting grand statements from politicians about their countries becoming regional energy hubs. In some cases this seems deeply improbable, with countries like Albania and Montenegro historically being electricity importers, but for others like Bosnia and Herzegovina (BiH) and Serbia – already net exporters most years – it seems reasonably plausible.

But what will happen if everyone becomes a regional energy hub? Where will all the electricity go? Is there likely to be a market for it at all?

Since Bankwatch had already been concerned that some of the planned Balkan electricity generation projects may be uneconomic (think of unit 7 at the Tuzla lignite-fired plan in BiH and the Boskov Most hydro power plant), we decided to investigate with the University of Groningen and the Advisory House consultancy what will happen if the promised electricity generation capacity really materialises. We know what to expect on the environmental side from coal and poorly-sited hydro power plants. But what about the economic side? Could coal and gas plants in the Balkans end up lying idle like their counterparts in Italy?

Export dependence a real possibility

The first surprise was how difficult it was to find updated and realistic information on planned generation capacity investments. Some of the countries do not have any recent official energy strategy at all while others have, but they do not contain sufficient information and/or are internally contradictory.

Not unexpectedly, we found a large gap between government wish-lists of electricity projects and reality:

- Only one coal power plant (Stanari, BiH) is under construction in the region but up to 15 more are planned
- Albania has 10 wind farms planned, but none are under construction.
- Small hydro power plants are being built - often in controversial locations - but still the number under construction is dwarfed by the number planned.
- Only five larger hydro power projects (10 MW+) are under construction or near to starting, compared to 37 others planned.

If no new capacity is built except that which is already under construction or near construction, and nothing is closed except that which is already announced, then the region will need to import electricity starting somewhere between 2018-2023, depending on demand levels.

At the other end of the spectrum, if the countries realise all their planned capacity extensions and demand growth is low, the region will have a 56 percent electricity surplus in 2024.

In particular BiH could turn into the largest exporter of electricity (up to 20,000 GWh), followed by Serbia (18,000 GWh). The other countries have a much lower potential contribution to the regional surplus, but measured in terms of their domestic demand, their export potential is substantial.

Such significant electricity capacity expansions designed to meet export demand create the danger of becoming dependent upon the export market. Our export analysis shows that there will not only be competition within the western Balkans but also from other nearby competitors such Bulgaria, Romania and the rest of the EU. Given an expected excess supply in Europe, increased competition may put pressure on export prices and increase the risk of incurring stranded assets - power plants that will become simply uneconomic to even operate.

For this reason, the study suggests closely examining investments that are directed to serve export markets and to also consider the trade-off of producing or buying electricity. Taking measures to reduce electricity losses is also crucial.

Better planning is crucial – two key take-aways

First, planning across the region's energy sector needs to be seriously improved. Strategies need to be better justified, clearer and more coherent. They should avoid including old projects which have already practically failed and take serious note of public comments.

Second, less is more. Why have huge lists of projects that are proving difficult to implement, when with more rational planning and analysis, a much smaller amount of investments would suffice? Energy efficiency should come first, and governments should not be afraid to cancel projects which have been hanging around for decades but never proved worth building.

Read more: "Stranded assets in the western Balkans - report on the long-term economic viability of new export capacities" is available for download at http://bankwatch.org/publications/stranded-assets-western-balkans-report-long-term-economic-viability-new-export-capaciti

EBRD digs in deeper with **Serbian** coal **king**

Earlier this year, Serbian media reported that the EBRD was considering providing a new EUR 200 million loan for the financial restructuring of the state-owned electric utility power company of Serbia, EPS. The EBRD Director for Serbia, Mateo Patrone, was quoted by B92.net saying that the loan is aimed at helping the financial restructuring of EPS. Meanwhile, the EBRD's country strategy for Serbia, approved by its board of directors last April, highlights the bank's "key role in promoting energy efficiency and renewable energy" for the country.

However, before considering another loan to the Serbian utility, the preliminary recommendations of an analysis being undertaken for Bankwatch by resettlement expert Roger Moody - to be published next month - urge the EBRD to publicly acknowledge its responsibility for the environmental damage and human rights violations caused in the Kolubara mine basin since 2011. The analysis assesses the Serbian state authorities' inability or even unwillingness to conduct proper resettlement resulting from the expansion of Kolubara's Fields C and D, as well as the EBRD's obligation to mitigate problems which the communities in the Kolubara basin are facing.

The paper argues that in spite of the EBRD's declared mission to reduce greenhouse gas emissions at the point of burning the lignite, in reality what EPS was doing on the ground was promoting a major expansion of lignite extraction, which clearly entailed involuntary resettlement.

With equipment covered by the 2011 EBRD loan, EPS has actually been expanding the mining fields. The bank ignored the reality that the Kolubara Mining Basin is effectively one field, integrally managed by a single enterprise - MB Kolubara, controlled by its client, EPS. Since the project was designated to effect "Kolubara Environmental Improvement", then simply advancing coal mining efficiency could only ever have made a minor contribution to achieving that objective - and a highly dubious one at that.

The research also presents grave inconsistencies and contradictions related to a proper environmental and social impact assessment study that should have been carried out by a consultancy commissioned by the EBRD. In reality, this document is nowhere to be found.

As the excavations and overburden wastes began creeping towards peoples' gardens and doorsteps, hundreds of residents came onto the streets to protest or petitioned the authorities to intervene. Ultimately a consensus developed that the only way to fight such mounting external pressure was to escape from it altogether, and to try to forge new lives elsewhere. Unfortunately, this has not happened to the standard which should have been guaranteed, as compensations were inadequate and proposed relocation sites were not chosen with the consent of the communities. The relocation of family homes, gardens, allotments, businesses, graves and burial plots, along with pastured animals, may appear to have been conducted judiciously, but it has certainly not been done justly.

On disbursing their funds in 2011, no doubt the EBRD considered that a fairly straightforward, time-bound task lay ahead of them. At the end of it, they could walk away from Kolubara, neatly tying up any loose ends, and declaring the "environmental improvement" project completed. Had they performed proper due diligence and a full social impact assessment, enhanced by a human rights equivalent, before dispersing the funds, they should have understood that this project was far more challenging and complex than it initially appeared to be, and then walked away.

Bankwatch **fact-finding** mission to **Tunisia** uncovers **major flaws** in EBRD **oil and gas** investment

In July 2013 the EBRD approved its second loan in Tunisia, to Serinus Energy. With the EBRD investment portfolio in Tunisia standing at the end of 2014 at EUR 212 million the Serinus Energy loan represents roughly 25 percent of all EBRD loans in Tunisia to date and is the only loan to have gone to the country's natural resources and energy sector.

With such a significance, therefore, surely the EBRD would make every effort to ensure that the project meets the Performance Requirements of its own Environmental and social policy (from 2008) and that it demonstrates a positive transition impact for Tunisia?

In March 2015, Bankwatch conducted a fact-finding mission to Tunisia to map Serinus Energy's performance. The findings of the field visit to the provinces of Kebili and Tataouine provide further questions and reveal additional worrying practices by the EBRD's client in the south of Tunisia where the bulk of the company's oil and gas concessions are located.

These are additional to the problematic aspects of the project which have been highlighted by Bankwatch in cooperation with Tunisian civil society since the project originally entered the EBRD pipeline.

Access and participation

Three out of the four concessions for which the EBRD loan has been given are located within a military zone where access is subject to a desert pass issued by the Governor of Tataouine. This poses an administrative barrier to any third party monitoring.

Attempts by Bankwatch to conduct independent water tests at the Chouech Es Saida, Ech Chouech and Sanrhar concessions were torpedoed by the company which not only refused to allow access to the company's premises for water testing in the military zone – in spite of an email five months in advance informing about Bankwatch's intention to monitor the company's premises – but according to the Regional Committee for Agriculture Development company employees are denying access to the premises even to officials responsible for water control and monitoring.

Labour disputes

Over the course of 2012 and 2013, Winstar operations, a subsidiary of Serinus Energy, were hit by several strikes causing the temporary shutdown of its facilities. The central dispute involved fixed-term contracts and the contracting of employees by private intermediary agents, two notorious problems in the oil and gas sector and in Tunisia more widely.

For taxation reasons as well as complicated dismissal procedures, Tunisian employers prefer short term contracts and informal employment. In interviews with Bankwatch, trade unionists complained about inadequate worker protections and occupational safety risks connected with fixed-term contracts and subcontracting. This is at odds with the EBRD's social standards that guarantee respect for labour requirements for non-employees.

In documents for its shareholders, Winstar claimed it resolved the conflict by negotiating an agreement with the workers and unions and establishing a mechanism for dispute resolution. However, according to the trade unionists, the strikes in 2013 were organised to address the non-implementation of previous agreements and continued sharp employment practices deployed by the company. At the alleged last meeting with the union on August 19, 2013, the company agreed among other things to provide worker representatives with labour relations standards and to grant a rise in salaries.

One trade unionist we interviewed claimsed that none of these promises have materialised and as a result the workers ended dialogue with the company.

The Winstar experience highlights a common failing in the hydrocarbons extraction sector in developing countries – while western companies extract natural resources, only a limited chunk of the revenues paid to the host governments benefits the regions directly involved. Moreover, oil and gas extraction is not labour intensive and is unable to meet expectations of significant employment creation.

This is pronounced in the impoverished governorates of south Tunisia, where unemployment hovers around 15 percent according to official statistics, though according to people approached by Bankwatch the reality is closer to 50 percent. With abysmally high rates of youth unemployment, the region has become a hotspot for social unrests and in fact a hotbed for Isis recruitment.

What's more, the Bankwatch fact-finding mission has confirmed that the local administration lacked capacity and knowledge about the EBRD Environmental and social policy to be able to effectively monitor the company's obligations in the Kebili and Tataouine provinces. Only after a workshop was conducted on the obligations that do in fact result from such an EBRD loan did the local authorities and trade unions feel in a position to demand more engagement from the company.

The fact that this knowledge and understanding has only been disseminated roughly 18 months after the loan to Serinus Energy was approved by the EBRD raises serious concerns about the consultation process during the project appraisal and the dissemination of information about the loan among the local stakeholders – both by Serinus Energy and the EBRD. The most surprising discovery perhaps was the fact that the governor of one of the provinces where Serinus Energy holds its concessions had not been aware about the EBRD loan to Serinus until September 2014.

Illusory transition

Thus, we now know: knowledge of the EBRD and the obligations that ought to accompany its Serinus Energy loan has been scarce; trade unions are claiming that workers' rights are not being respected by the company; the local administration claims that they are not aware of any taxes from Serinus operations reaching the governorate level, and; on top of this the company is not paying for its water use on time, plus there is no possibility to independently monitor the water-related practices of the company as it refuses to cooperate with both the local authorities and NGOs such as Bankwatch.

The questions over this deal continue to mount. One question however persists: can the EBRD possibly claim that a positive transition impact is being realised by its major investment in Serinus Energy?

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