Kolkhety Lowland
Towards Sustainable Development?!

Kolkhety Lowland
Towards Sustainable Development?!

A study by Association Green Alternative and the CEE Bankwatch Network

Manana Kochladze

Tbilisi
June, 2001

CONTENTS

EXECUTIVE SUMMARY

The Caspian Sea's oil reserves are considered to be at least as large as those in the North Sea that currently supply about 8% of the world's oil**.** Bringing the Caspian Sea's energy resources safely to the international market is a new world challenge. One of the main transit routes through existing pipelines and railways from the Caspian Sea to Europe, is the Georgian Black Sea Coast, which includes the highly sensitive ecosystem– Kolkhety Lowland.

Kolkhety Lowland represents one of the most valuable biodiversity hotspots of the Black Sea, providing a critical habitat area for numerous species of migratory and wintering birds, unique endemic and relict species of flora, and unique wetlands.

In April 1999, the first tankers were loaded in the new Supsa oil terminal, which is located on the Black Sea at the end of the Baku-Supsa Export Pipeline that stretches from the Caspian Sea in Azerbaijan across Georgia. The project was implemented through the active support of the World Bank and EBRD. In an effort to mitigate the political risks posed by the Caspian oil and gas sector to private investors, the World Bank Group pushed forward a range of institutional, policy and legal reforms. The trend has been towards implementing a growing number of new ports and controversial projects within the Kolkhety Lowland, either directly in or near the Kolkhety National Park and Ramsar sites.

Already at risk due to extensive oil transit, Kolkhety Lowland now faces further threats because of oil activities such as Baku-Supsa Oil Pipeline (IFC/EBRD); drainage of Kolkhety wetlands (World Bank), Kulevi Oil Terminal construction and oil exploration plans by Anadrako in Protected areas. These activities have taken place despite the establishment of the Kolkhety National Park and the listing of unique and important wetland sites under the Ramsar Convention.
The promotion of oil transit, combined with policy reforms and private sector risk mitigation, has given rise to a situation in which the Georgian Government is supporting all oil related projects without calculating the cumulative environmental, economic and social impacts. New oil terminal, port and oil exploration projects have appeared like mushrooms after the rain.

Oil developments have been prioritized ahead of the protection of the Kolkhety Lowland, the natural heritage of Georgia, with intact wetlands and the unique Kolkhety Forests. The latest oil developments in protected areas undermine the efforts of the World Bank to establishthe national park and set a precedent for further violation of international agreements and commitments undertaken by the Government of Georgia.

The cumulative environmental, economic and social impacts and costs of on-going and planned projects for the Kolkhety Lowland, as well for the Black Sea, have never been calculated.

As a priority, there is a need to develop a strategic and integrated study for the investigation of economic profits of new projects. This would involve the calculation of how many and what kinds of ports and site-specific projects would be most beneficial for the local population (including issues of employment, land ownership, environmental and social sustainability) and also which would be most beneficial for the state budget on the whole.

The study would need to include a Strategic Environmental Impact Assessment for the whole coastal zone, including cumulative long-term impacts of proposed projects, and the affects of the application of the Espoo Convention guidelines for oil transportation in the Black Sea and Bosphorous Strait.

Based on this study, it would be possible to prepare a state plan for coastal zone development. The background material and resources necessary to implement this study already exists because of the on-going ICZM project and the State Commission for Coasts. Additional funds could be found to ensure study preparation, as well secure the work of the Commission.

We demand that the Government of Georgia, World Bank and EBRD:

- Prepare a Strategic Environmental Impact Assessment for the coastal zone, including a full life cycle CO_2 assessment;
- Prepare an Economic Assessment of Coastal Zone developments;
- Stop construction of new ports and oil terminals, as well as various projects (such as the wetlands drainage) until the above mentioned assessments have been completed;
- Apply Espoo Convention Guidelines (despite the fact that Georgia does not want to ratify it), to any new oil terminal or port construction project , as new initiatives significantly increase oil shipment in the Black Sea and Bosphorous;
- Develop fiscal mechanisms to allow the Integrated Coastal Zone Management Commission to establish a supreme body for issuing economic activity licenses in the area. Without the ICZM Commission's permission, no economic development should be permitted in the coastal zone;
- Support and uphold the legal framework establishing and protecting the Kolkhety National Park and the ICZM project (WB); and
- Ensure fair public participation in decision-making processes.

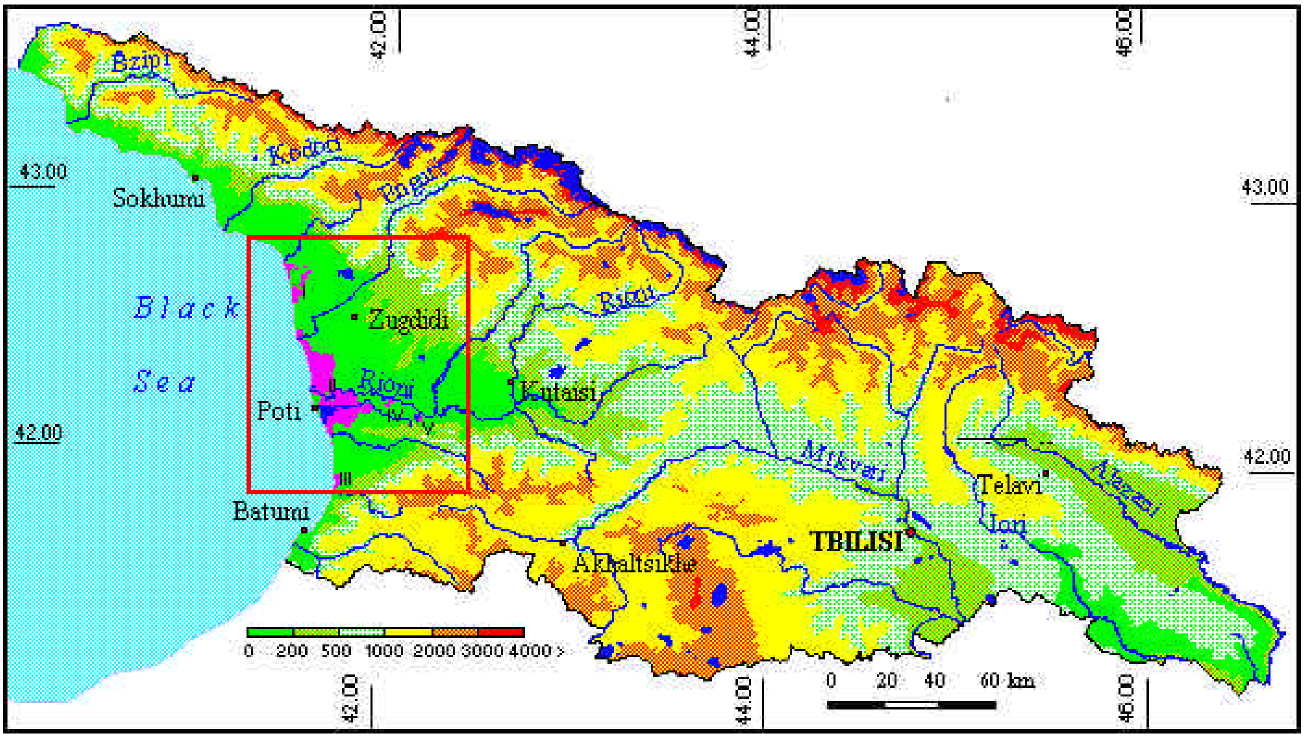
INTRODUCTION

Making Georgia into a “transit country” is a political and economical objective of the Georgian government, widely supported by International Financial Institutions (IFIs), the EU and the US Government. Described by IFIs as one of the most liberal trade and exchange regimes among transition economies, Georgia has been encouraged to accelerate its membership in the WTO. The main interest is foreign direct investment potential in oil and related sectors.

The Early Oil pipeline project, with a new oil terminal on the Black Sea, was completed in April 1999 through the active support of IFIs. Despite considerable promotion, even calling it the “project of the century”, in reality the project brings as little to the population as it does to the state budget. However, lessons never have been learned. Oil projects are still promoted as one of the biggest source of large and speedy incomes.

The promotion of oil transit, combined with policy reforms and private sector risk mitigation has given a rise to situation in which the Georgian Government is supporting all oil related projects without calculating the cumulative environmental, economic and social impacts.

The new oil terminal, port and oil exploration projects appeared like mushrooms after the rain. However, realistic analyses of the benefit to the country’s economy, the benefits and trends for the local population and the fragile environment of Georgia never have been done.



I. MITIGATE POLITICAL RISKS OF PRIVATE SECTOR INTERNATIONAL FINANCIAL INSTITUTIONS POLICY

The Caspian Sea's oil reserves are considered to be at least as large as those in the North Sea that currently supply about 8% of the world's oil. Bringing the Caspian Sea energy resources safely to the international market is a new world challenge. The Eurasian crossroad became prominent politically and economically, and heavy investment by leading international oil conglomerates and International Financial institutions for the discovery, drilling, and transportation of the area's energy resources transformed the Caspian Sea and the Caucasus territories. One of main transit routes through existing pipelines and railways from the Caspian Sea to Europe, is the Georgian Black Sea coast, with the highly sensitive ecosystem– Kolkhety Lowland.

In 1995, the World Bank Group (WBG) started collaborating with Georgia in an effort to mitigate the political risks of the "Early Oil Project", the first privately financed oil in the Caspian region and a major infrastructure investment. WBG involvement included: policy advice; an oil institution building project; and long-term financing from both the European Bank for Reconstruction and Development (EBRD) as well as the World Bank Group's private sector lending arm, the International Finance Corporation (IFC). This long-term financing was of a kind that had "not previously been made available to the region," and it served to both mitigate the risks associated with private sector investments as well as create a precedent for possible future WBG involvement.

Despite the commitments made by the IFC and EBRD that the project would use Best Available Technologies and Accepted International Environmental Standards, the reality has been completely different. The practice of discharging waste-waters into the sea and using toxic muds during offshore drilling is a serious environmental threat. Similarly, the construction of the Supsa Oil Terminal on the Black Sea Coast, which does not satisfy requirements of the MARPOL Convention (the International Convention for the Prevention of Pollution from Ships), suggests that the World Bank Group is not bringing significant "environmental additionality" to a project that would have been difficult to execute in the absence of Bank Group support.

In an effort to mitigate the political risks posed by the Caspian oil and gas sector to private investors, the Bank Group pushed forward a range of institutional, policy and legal reforms.

The Georgia Energy Sector Adjustment Credit (ESAC) in 1999, laid the foundation for policy reforms associated with the transit of oil. In particular, laws were adopted providing for eminent domain procedures (compulsory purchase or easements in the public interest) and for environmental liability in the case of transportation of hazardous substances (including oil). In addition, Georgia ratified a number of important international treaties related to oil spills.

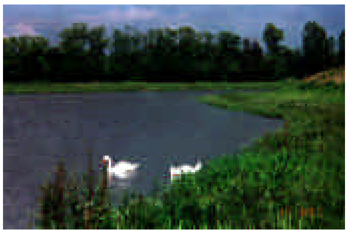
The World Bank has tried to pave the way for public support of a massive pipeline and other oil transit projects, which will pump oil from developments funded in the Caspian. The World Bank's "Georgia-Energy Transit Institution Building project" (March 13, 2001) clearly illustrates that this is the case.

The promotion of oil transit, combined with policy reforms and private sector risk mitigation has given a rise to situation in which the Georgian Government is supporting all oil related projects without calculating the cumulative environmental, economic and social impacts.

The Kolkhety Lowland case represents a clear example of how policies and strategies, defined by international financial Institutions, are resulting in a Government agenda that is completely unsustainable.

II. KOLKHETY LOWLAND

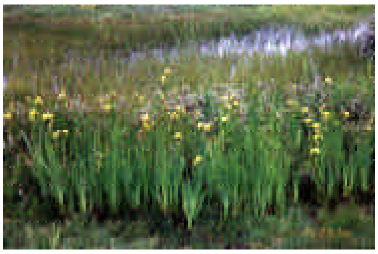
Kolkhety Lowland, located in the coastal zone of Georgia, is one of the unique ecological hot spots of the Black Sea. The Lowland includes Kolkhety National Park, Kolkhety Wetlands, Lake Paliastomi, and Kobuleti Wetlands. The Kolkhety Wetlands (Churia, Nabada, Phichora-Paliastomi, Lake Paliastomi, and surrounding territories and marine waters - totalling 55,5 thousand hectares) were included on a list of Wetlands of International Importance, under the Ramsar Convention, by resolution 201 of the Georgian Parliament in 1996. The convention on wetlands of international importance, especially as waterfowl habitat, was signed in Ramsar in 1971. The convention recognizes "fundamental ecological functions of wetlands as regulates of water regimes and as habitats supporting a characteristic flora and fauna, constitute a resource of great economic, cultural, scientific and recreational value, the loss of which would be irreparable" [1]



The Kolkhety Wetland area provides a critical habitat for numerous species of migratory and wintering birds, as well as unique endemic and relict species. Unfortunately, over the last five years, activities have been initiated that threaten attempts to protect and conserve the highly valuable biodiversity of the region.

Kolkhety National Park and Ramsar Sites

Kolkhety National Park is an approximately 45 000 hectare area that lies near the Rioni river north estuary, within the larger Kolkhety Lowland complex designated as a Ramsar site in 1996. The protected areas support rare and relic communities such as peat bogs, and Alder and other subtropical forest types from the Tertiary period. The region and its coast is an important area for 21 species of migratory birds, their recreation and wintering. It also contains a high level of endemism and floral diversity, as well as some of the most significant and threatened ecosystems in Georgia.



The botany of the area is diverse with endemic and relic species of phytocenose. Although the numbers of phytocenose was reduced when the wetlands were drained for industrial peat mining, there are still several original natural plant communities.

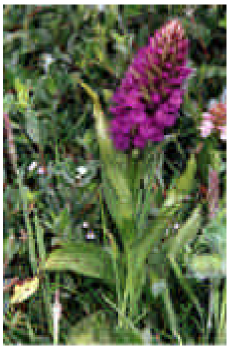
These forest and wetland ecosystems are under threat as a result of drainage of wetlands for agricultural and urban use, of forest harvesting, illegal hunting, peat and gravel mining, pollution and invasion by non-native species.

Marine Reserve

The territory between the Churia and Khobi rivers represents a 5-mile wide marine water nature reserve zone (5487,85 ha). This area was classified a strictly protected zone because of the numerous hydrographic networks, and waterfall rivers that provide the habitat, migration and reproduction areas for rare, endemic and valuable fishes, many of which are listed in the Red Book of Georgia and Red List of Europe. Also, this part of the sea is designated as an especially important area for marine mammals. There is a habitat and reproduction area for all three species of dolphins of the Black Sea which, because of the small remaining population, require special protection.

In 1998, the World Bank and the Global Environmental Facility (GEF) approved an "Integrated Coastal Management" (ICZM) project. The project was designed to meet one of the objectives outlined in the

Bank's Country Assessment Strategy (CAS) for Georgia – protecting the environment and supporting sustainable natural resource management. According to the Bank, this project would support the "conservation of wetlands through the establishment of Kolkhety National Park and Kobuleti Reserve, significantly expanding the existing area under protection and supporting implementation of its management plans[2] ."(see annex 1)



Black Sea

Once, one of the most ecologically rich and productive seas, the Black Sea is now one of the most polluted seas in the World. Due to high pollution and over fishing over the last few decades, there has been a decrease in the number of plant and animal species found in the Black Sea.Currently under threat are about 249 species of plants and animals, among them dolphins, sturgeons, and mussels. Red-agar production algae (from the Phyllophora genus), the main oxygen generator in the Black Sea is also threatened.

Since 1993, there has been an on-going Black Sea Environmental Program with GEF and World Bank support for protection of the sea.

III. KOLKHETY UNDER THREAT

Given Georgia's geographic location, it is Government policy to make full use of the country's potential to become a transit corridor in the region. The main emphasis is placed on the transit of oil from the "vast" oil reserves in the Caspian Sea.

In April 1999, the first tankers were loaded in the Supsa terminal, which is located on the Black Sea at the end of the Baku-Supsa Export Pipeline that stretches from the Caspian Sea in Azerbaijan across Georgia. Supsa Terminal is located in the mouth of the Supsa river about two kilometers from the Kolkhety Wetland. According to the Baseline Environmental study "Supsa terminal has the potential to impact on the unique wetland communities and Kolkhety Forests."

Additionally, Chevron transports annually about 2,5 million tons of crude oil through the Georgian Railway on this territory. Two rail accidents have already caused large oil spills on the Kolkhety territory, near the National Park.

Given the small size of Kolkhety Lowland and the amount of the oil already transported through it, the area should be considered a high-risk area.

The trend has been towards implementing a growing number of new ports and controversial projects within the Kolkhety Lowland, either directly in or nearby the Kolkhety National Park and Ramsar site territories.

According to the Presidential decree, 1081 (8 September, 1999) construction started on an Oil Products Terminal and harbor in the village of Kulevi (in the middle of Ramsar Site and strict marine reserve). In addition, the Presidential Decree 260 (28 March, 2000) supports construction of Anaklia Port (near the Anaklia Wetlands).

Several controversial projects (Baku-Supsa Oil Pipeline, Drainage of Kolkhety Wetlands, and Kulevi Oil Terminal) have already begun in the area of Kolkhety Lowland. This occurred parallel with the Integrated Coastal Zone Management Program and Establishment of Kolkhety National Park (already funded by WB, Tacis, and GEF). Infrastructure investments appear set to continue with the expansion and rehabilitation of Batumi and Poti Ports.

Pressure for new port and harbor developments

As an argument for the development of new ports and harbors, the Government has promoted the idea of mega-projects such as the Baku-Ceyhan pipeline[3] and EU TRACECA[4]. They have said that the potential of the existing ports is insufficient to meet the growing demand for oil and cargo transportation from east to west. There are a number of problems that have not been addressed by the studies that have been conducted so far. The EBRD does not seem to acknowledge these problems: "While the further traffic along the old silk route is difficult to predict, the trend is encouraging"[5]. However, it may be far more "encouraging" and cheaper to start reconstruction of existing facilities.

On the shore of Georgia, there are three existing ports: Batumi, Poti, and Sokhumi (now under control of Afkhasian separatists). However, Government officials and state companies are lobbying for the construction of new ports rather than the reconstruction of existing facilities.

The main arguments (without the presentation of economic schemes) of developers in favour of the construction of new ports on the Coast of Georgia are:

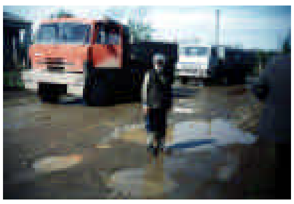
- The potential of existing Georgian ports is insufficient to meet growing demand;
- further development of Batumi and Poti ports are restricted due to existing cities that surround the ports;
- The exploitation parameters (depth of navigating channel, maneuvering area inside the port,and state of existing infrastructure) of ports are not satisfactory and create additional problems and environmental risk. [e.g., the depth of Poti Port's navigation channel and the inside water area restricts Port services to ships with a maximum capacity of 40000 tones. The service of larger ships takes place on the open sea.)
- These ports (including Supsa[6]) do not satisfy the MARPOL[7] Convention guidelines.

The Real Cost of expansion

The development of new ports (especially ones with oil terminals) in this situation does not represent the best solution. Usually, the reconstruction of existing facilities is the most cost effective from a social and environmental point of view. This means lower long-term external costs. This is especially the case when taking into account that environmental and social protection measures have never been prioritized in Georgia[8] . There is no guarantee that the new ports will be equipped in accordance with the MARPOL Convention, and that during the construction the best available technologies will be used.

The World Bank/GEF Coastal Zone Management project supported the creation of a State Consultative Commission. In theory, the Commission was launched in order to serve as the principal forum for interpreting and coordinating existing policies among the various sectors/stakeholders involved in coastal and marine resource use along the coast, to guarantee sustainable development of the Georgian Black Sea Coast. However, the Commission itself never meets, not even to discuss and consider the various types of activities that have been undertaken over the last two to three years in the Coastal zone of Georgia.

The cumulative environmental, economic and social impacts and costs of on-going and planned projects for the Kolkhety Lowland as well for the Black Sea have never been calculated.



Social problems that have arisen due to oil project development have never been addressed properly. An animosity between local unemployed people and workers from outside the region (usually people from the capital city) already exists. It has been promoted that oil and port projects will bring employment to the region, however, the reality is quite different. The operation of these projects requires highly qualified staff that cannot be found in regional areas of the country. Also, people are losing their land and are not being satisfactorily compensated.[9] These issues continue to be a problem. The Supsa terminal experience clearly shows that the Government does not take these issues seriously.

The construction of new ports and pipelines is one of the reasons that transportation of oil tankers in the Black Sea and Bosphorous Strait has increased. Connecting the Black Sea with the Sea of Marmara, and the Mediterranean, Turkey's Bosphorous is so narrow that large ships pass within hailing distance of waterfront homes. Over the past ten years, 150 serious accidents have occurred in the world's most dangerous strait. The "Nassia" accident, which happened in the Bosphorous Strait in 1994, demonstrated again the environmental risks of oil transportation. Approximately 20 000 tones of oil were spilled into the Strait which then flowed to the sea. Another big accident with severe transboundary effects occurred on December 29, 1999.

Tanker accidents and spills from terminals are the main sources of world ocean pollution. The cumulative effects of oil spills requires appropriate response plans. This clarifies the need for a transboundary impact assessment of the oil transportation projects under the Espoo Convention guidelines.

IV. CONCLUSIONS AND DEMANDS

Oil developments have been prioritized over the protection of the Kolkhety Lowland, the natural heritage of Georgia, with intact wetlands and unique Kolkhety Forests. The latest oil developments in protected areas undermine the efforts of the World Bank to establish a National park and set a precedent for further violation of international agreements and commitments undertaken by Government of Georgia.

As a priority, there is a need to develop a strategic and integrated study for the investigation of economic profits of new projects. This study would calculate how many and what kinds of ports and site-specific projects would be most beneficial for the local population (in terms of employment, land ownership, environmental and social sustainability) and also which would be most beneficial for the state budget on the whole.

The study would need to include a Strategic Environmental Impact Assessment for the whole coastal cone, including cumulative long-term impacts of proposed projects, and impacts from the application of Espoo Convention guidelines for oil transportation in the Black Sea and Bosphorous Strait.

Based on this study, it would be possible to prepare a state plan for coastal zone development. The background material and resources necessary to implement this study already exist because of the on-going ICZM project and the State Commission for Coasts. Additional funds could be found to ensure study preparation, as well as secure the work of the Commission.

We demand that the Government of Georgia, World Bank and EBRD:

- Prepare a strategic environmental impact assessment for the coastal zone, including a full life cycle CO_2 assessment;
- Prepare an economic assessment of coastal zone developments;
- Stop construction of new ports and oil terminals, as well as various projects (such as the wetlands drainage) until the above mentioned assessments have been completed;
- Apply the Espoo Convention Guidelines (despite the fact, that Georgia does not want to ratify the Convention), to all new Oil terminal or port construction projects, as the new initiatives significantly increasing oil shipment in the Black Sea and Bosphorous Strait;
- Develop fiscal mechanisms to allow the Integrated Coastal Zone Management Commission to establish a supreme body for issuing economic activity licenses in the area. Without the ICZM Commission's permission, no economic development should be permitted in the coastal zone;
- Support and uphold the legal framework establishing and protecting the Kolkhety National Park and the ICZM project (WB); and
- Ensure fair public participation in decision-making processes.

Annex I. Integrated Coastal Zone Management Project and Sustainable development of Kolkhety Lowland

Project Title: Integrated Coastal Management Project
Responsible Agency: Ministry of Environment
Sector: Environment
World Bank IDA Credit: 4.4 million USD
GEF (Grant) : 1.3 million USD
Government of Netherlands (Grant): 1 million USD

The project objective aims to strengthen institutions in Georgia to manage the coastal resources of the Black Sea by developing, testing and evaluation methods to effectively integrate environmental planning and management into economic development activities along the Black Sea coast. The project also aims to assist Georgia in meeting its international commitments under the Black Sea Environmental Program (BSEP) and to implement actions outlined in the Georgia Biodiversity Strategy/Action Plan. These priorities include conservation of biodiversity at sites of international significance on Georgia's Black Sea coast, such as the Kolkheti and Kobuleti wetland Ramsar sites; restoration of degraded habitats and resources within the Black sea Large Marine Ecosystem; and participation in regional efforts to manage and sustain public goods of a transnational character.

The project includes five components : a) ICZM Institutional capacity building through creation of a State Consultative Commission for ICZM and operational ICZM units; b)establishment of the Kolkhety National Park and Kobuleti Nature Reserve; c) establishment of a Coastal Environmental quality Monitoring and Information System; d) Evaluation of Coastal Erosion; e)Development of a National Oil Spill Contingency Plan and Marine Pollution Control Plan.

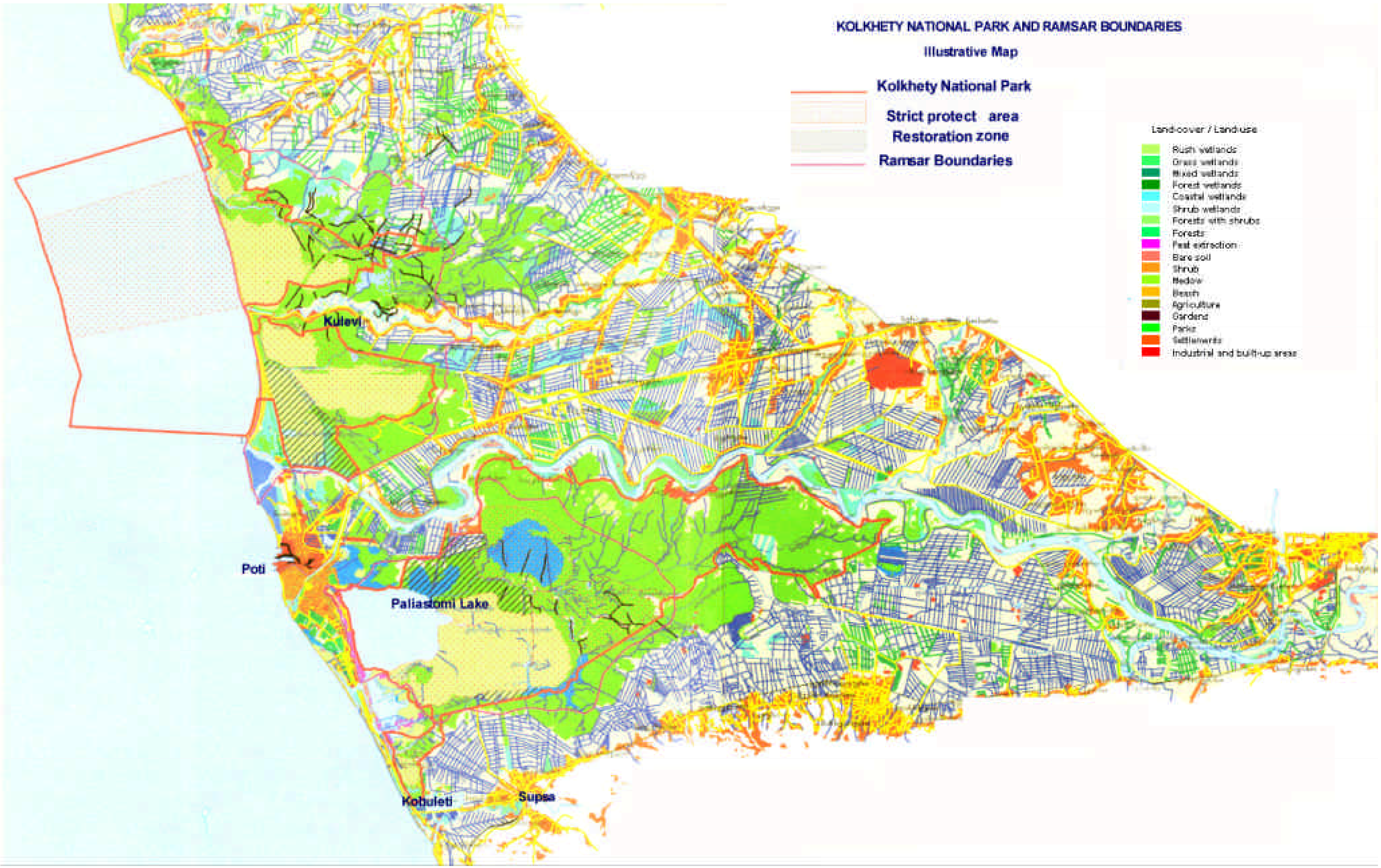
The State Consultative Commission for ICZM was established by Presidential Decree in October,1998. It consists of 25 representatives from various ministries and departments, regional and local authorities, NGOs, private sectors and academia. However, the Commission has failed to became the forum for sustainable development of the coastal zone, due to the duplication of efforts and responsibilities among various sectors and levels of Government, as well the increasing number of potential conflicts between different sectors concerning the exploitation of resources.

As one of the key performance indicators of the project includes the establishment of Kolkhety National Park and Kobuleti National reserve. The project target area and surrounding transcaucasus region is identified under the World Wide Fund for Nature's Global 200 Ecoregions program, which uses selection criteria of species richness, levels of endemism, taxonomic uniqueness, unusual evolutionary phenomena, and global rarity of major habitat types.

According to the Bank's documentation "The Kolkhety forest and wetland ecosystems are under immediate threat as a result of drainage of wetlands for agricultural and urban use, illegal hunting, forest harvesting, and the proposed expansion of the Poti Terminal[10] ". It is really difficult to find logic in the Bank words. In 1999 the World Bank supported the development of the Supsa Oil Terminal 2 km from Kolkhety National Park, and in 2001 it supposed to fund "Agricultural Development II project"[11] . This project includes drainage of 34, 000 ha of Kolkhety Wetlands, which have already been drained once during the Soviet time, in the buffer zone of the Kolkhety National Park and Ramsar sites. Drainage has been developed in the high rainfall region of western Georgia (Kolkhety Lowland), on 132 940 ha out of a total of 164 740 ha[12] . These drainage projects cost about 1,5 billion soviet rubles.

The biggest part of the drained wetlands was never used as agricultural lands and nowadays it represents secondary wetlands or lands affected by salination. According to the FAO report, the total area of Kolkhety lowland, where drainage infrastructure could be developed in the future, is about 800 000 ha. The eradication of malaria and reducing health risks through a reduction of stagnate water in this area is one of the goals of these drainage works. It seems strange to fight a waterborne or water-related disease through its "reduction".

The World Bank project and EIA[13] lack an economic and social assessment on the necessity of draining the wetlands, an assessment of costs for maintenance drainage to avoid salination. There is also a lack of an assessment of the cumulative environmental impacts of the wetlands drainage on Kolkhety National Park.


KOLKHETY NATIONAL PARK AND RAMSAR BOUNDARIES
Illustrative Map
Kolkhety National Park
Strict protect area
Restoration zone
Ramsar Boundaries
Land-cover / Land-use
Rush wetlands
Grass wetlands
Mixed wetlands
Forest wetlands
Coastal wetlands
Shrub wetlands
Forests with shrubs
Forests
Peat extraction
Bare soil
Shrub
Medow
Beach
Agriculture
Gardens
Parks
Settlements
Industrial and built-up areas
Kulevi
Poti
Paliastomi Lake
Kobuleti
Supsa

Annex II. List of new Oil projects and ports already under construction and operation on Kolkhety Lowland

Kulevi Oil Terminal

Project Sponsor: Argomar Oil Handelsges.m.b.H
Sector: Port (Oil Terminal)
Total Project Cost: 120 million USD

The Presidential decree 1081 (8 September, 1999) set in motion the construction of the Oil Products Terminal (OPT) in Kulevi village (which is in the middle of a Ramsar Site and a strict marine reserve). The project sponsor is "TERMINAL 2000 LTD" in a joint venture with ARGOMAR OIL Handelsges.m.b.H. (Austria)[14] and Georgian Railway L.T.D. The construction of the OPT was started despite various procedural violations such as: purchasing the territories without providing notification to the Ramsar Secretariat; failure to even attempt to prove that there is an urgent national need for the project; the Georgian Parliament did not ratify changes in existing Ramsar site boundaries and the EIA was not done before the start of construction.

For roughly a year the project sponsor was advertising that the OPT project was sponsored by the EBRD [15]. However, in response to a Bankwatch question concerning the possibility of the EBRD providing financing to this project, the EBRD responded "Without having been presented a detailed business plan or feasibility study, and based on preliminary information supplied to us by the company, our initial impression was that it is an overly large and a potentially financially non-viable project. Since that first approach, we have heard of the press releases relating to the project but have not had any further contact by any party promoting the project or applying to the Bank for financing".

The site chosen for construction of the OPT is territory is protected under the Ramsar Convention, in multiple zones of Kolkhety National Park, and in the marine protected area. The developer has privatized 100 ha for construction, of which 30 ha are wetlands.

The oil-transfer terminal, including 22 reservoirs with 100 000 tons of storage capacity each, will be constructed on this territory. The oil will be transported by rail, with three alternative routes proposed. According to the project EIA, the most viable route is Kolkhety-Kulevi, crossing the Kolkhety National park[16].

Another problem is the training ground of the military base that is located 2-3 km from the OPT. According to the agreement between the Ministry of Defense and the project sponsor, oil shipments should be stopped five days in advance of any military training.

According to the project sponsors, the initial annual production of oil products will be 6 million tonnes, gradually increasing to 10 million tonnes. The total investment is supposed to be 120 million USD, with annual income of 78-200 million USD.

The project started with violations of the law when the project sponsor acquired the land by auction. The Ministry of Justice has made assurances there were no violations of law in connection with the transfer of ownership of the land due to the Ramsar Convention. Under this convention, Georgia is obliged to notify the convention secretariat and solve all secretariat concerns before going ahead with the transfer of the land. Only at the end of the year 2000, when the Ramsar Secretariat received information from other sources and construction work had already been started, was a letter of notification sent from the Georgian Government.

Despite the numerous issues that the project raised, all government activities focused on convincing the Ramsar Secretariat of the urgent need for construction and that the Ramsar criteria does not apply to the Kulevi territory. It is very interesting to note, that in the whole document, the authors did not once mention that the Kulevi territory is located in the middle of the Ramsar Site and Multiple use zone of Kolkhety National Park (See Annex 3).

The Construction of the OPT was started without permissions from the Ministry of Urbanisation and Housing or the Ministry of Environment. This was admitted by the Ministry of Environment at the beginning of April, 2001[17]. In a normal situation, construction without permission would be a prosecutable offence under Criminal Law.

During a visit to the project site by NGOs and media at beginning of April, it was apparent that construction work for tankers such as deeping of the river bay, was going on with accelerated speed. It should be mentioned that journalists were not allowed to drive into the area or take pictures of the site.

The NGO group saw also that residents of the village of Karieti in the Khobi region, blocked the access road to the Kulevi terminal and did not let trucks loaded with construction materials into the terminal. Due to the intensive movement of trucks on the road, the road, as well the drainage channels along the road, were severely damaged. Due to this, the wetland water flooded the gardens and houses of local residents. The locals demanded that Argomar renovate the road. During private conversations with local residents, the visiting group learned that there is also animosity between locals working on theOPT and those who are without work. Of the 500 people employed to construct the OPT, only one-quarter of them are local.

Offshore development - Anadarko

Project Sponsor: Anadrako
Sector: Oilfield exploration and development
Total Project Cost: 1 billion USD

Anadarko Georgia[18] developed a contract with the Oil and Gas State Regulation Agency for the extraction of oil on the West Georgia Sea shelf and onshore in west Georgia (IIa, IIb and III Blocks). Anadarko received the license from the company JKX which has had licenses for drilling this in the territory since 1994. The agreement signed with Georgia includes the development of the Georgian Continental Shelf over the next 25 years. Anadarko promised 1 billion USD in investments. The forecasted amount of offshore oil is about is about 200 million tonnes.

Anadarko believes also that it has rights for oil extraction in Kolkhety National Park, which is one of the main elements of Blocks II and III, according to article 46 of the law on Creation and Management of Kolkhety National Park.

In June 2001, Anadarko will start its first field offshore explorations.

Poti Port restructuring

Project Sponsor: Channel Energy Ltd (EIRE) and Tower Holdings
Sector: Port (Oil Terminal)
Total Project Cost: 30 million USD
EBRD share: 19.7 million USD

This project aims to construct and operate a new oil terminal in the Port of Poti (Georgia).
Today oil product shipment from Poti port is underway from N1 and N2 mooring lines that have been built as Container terminals for dry freights. The oil is unloaded directly from railway cars to tank vessels via temporary loading facilities, which were constructed in December 1993. Since there is no drainage system and no retention basins for rainwater or fire extinguishing water on the terminal area, accidental spills and overflows are washed directly into the sea.

The construction of the new oil terminal going on in the territory of N1 and N2 mooring lines is supposed to utilise and clean contaminated land. According to the EIA, the oil terminal project will involve storage of oil products, new water supply and sewage systems with wastewater treatment facilities, and security and anti-fire systems. Construction of the new Petroleum Products Handling and storage terminal, equipped with modern fire, water treatment and oil spill facilities, is an appropriate example of reconstruction of Poti port .

The construction of new oil terminal will increase the amount of oil transit through Poti and eventually through the Black Sea and the Bosphorous Strait, however, the procedures under the Espoo convention have not been applied, despite EBRD policy requirements.

Ali-Bairami – Batumi Pipeline

Total Project Cost: 70 million USD
Project sponsor : TengizChevroil

Georgia is already a rail transit center for Caspian Sea oil from the Tengiz Oil Fields in Kazakstan[19] . The Chevron Corporation (US), Caspian Trans Co (UK) and Saknabtoproduktebi (Georgia) plan to build an oil pipeline across Georgia. Since March 1997, these companies have transported about 2 million tones of oil through Georgian Railways into the Batumi Port[20] .

The project involves the rehabilitation of an existing 232 km pipeline from Khashuri in central Georgia and the construction of a new section between Ali Bairamly in Azerbaijan and Khashuri. The pipeline will allow Chevron to boost the amount of oil sent through Georgia from the Tengiz oil fields in Kazakhstan to at least 120,000 bpd. Under the new agreement, Tengizchevroil will receive the exclusive right to transport oil through the Khashuri-Batumi oil pipeline for the next 25 years. The pipeline will be refurbished, at a cost of $70 million, to enable it to transport oil at higher pressures. When rebuilt, the 105-mile pipeline could carry 140,000 bbl/d to 160,000 bbl/d, and new loading equipment at Batumi will enable it to handle up to 200,000 bbl/d.

ANNEX III . list of proposed oil and port projects

Supsa Port

Western Route Pipeline and Supsa Oil Terminal
Project Sponsor: AIOC (Azerbaijanian International Oil Company)
Total Project cost: 1 856 million USD
Georgian Section Cost: 596 million USD
Project Sponsor: Georgian Pipeline Company (operated by BP Amoco)

In 1999, a new terminal was built in Supsa for export of the oil shipped through the "western route pipeline". This project entails the construction of a pipeline to export 700,000 barrels of oil a day from the three oilfields developed by the Azerbaijan International Oil Consortium (lead by British Petroleum Amoco), to the Georgian Black Sea coast. The construction of the Supsa Oil Terminal was a part of the Chirag Early Oil project, the first large scale oil project of the International financial Institutions in the Caspian region. The IFC and EBRD invested up to 400 million USD "to send a positive signal about project financing in the region"[21] .

Since April 1999, about 5 million tonnes of crude oil has been loaded through the Supsa Terminal. Despite the commitment from IFIs that they will use best international practices during the project implementation, the whole project and particularly the Supsa Terminal is far from this standard. The Supsa Terminal does not meet the requirements of MARPOL convention for oil loading terminals[22] .

Today, Supsa Terminal is working at full capacity and transfers up to 5 million tonnes of cargo. If new reservoirs are built, this amount will increase up to 10 million tonnes. In addition, the Georgian International Oil Corporation plans to continue building terminals and oil refinery in Supsa. According to the EBRD[23] , the EIB is supposed to invest 120 million USD for a new loading facility and terminal.

Oil Refinery in Supsa
Project sponsor: Georgia International Oil Company
Project total cost: 250 million USD[24]
Feasibility study:450 000 USD, **TDA, US**

The United States Trade and Development Agency (TDA) awarded a $546,000 grant to the Georgian International Oil Corporation for project planning assistance in the development of the oil refinery in Supsa. The grant was used for a feasibility study to detail the design of the refinery, storage requirements, and financial and legal issues. Over the lifetime of the project, expected to be approximately 30 years, the U.S. would export modularized oil refinery equipment worth approximately $67 million with an additional $4 million in engineering, technological, and environmental services.

The Supsa refinery would export light petroleum products, such as gasoline, jet fuel, kerosene, and diesel to Turkey, Armenia, and other Black Sea nations. Mazute, which also would be produced at the refinery, would be targeted for domestic heating and power generation. The estimated 890,000 tons of mazute produced at the facility would eventually offset U.S. donations of the fuel, which have been provided during the past two years as emergency heating fuel. [25]

A "Golden Gate" - Anaklia port

Under the Georgian presidential decrees N28 (1999) and N 260 (2000), a deep-water marine harbour is planned for the village of Anaklia. The aim of project is to support further development of TRACECA and attract foreign investments for economic development of the country.

In May 2000 , an international Investment tender to develop a new Black Sea Port in Anaklia, 30 km north from

Poti Port was announced. The area marked for construction is located in the Seabed of the Enguri river. The port will be designed to service both bulk and container cargo shipments across the emerging East-West Transport Corridor in the Caucasus.

According to the tender documents[26] , the investor is expected to make a greenfield investment of $450 million in project development and construction of a port facility with a total capacity of 5 million tonnes annually. A bank guarantee for 1 million is required. The proposed length of the contract is 25 years.

ANNEX IV. Abstracts from the Ministry of Environment Statement to the Ramsar Convention Secretariat on oil terminal construction in Ramsar territories. [27]

1.Introduction

On 30 April of 1996, the Parliament of Georgia adopted a resolution on accession to the Convention "on Wetlands of International Importance, Especially As Waterfowl Habitat"[28]. The territory within Central Kolkhety Lowland located in the Georgian Black Sea Coastal Zone area, was designated as a Wetland of International Importance. This area has a total area of 55.5 thousand ha, including Churia, Nabada, Phichora-Paliastomi wetlands, Paliastomi Lake, and surrounding territories and marine waters.

In 1997 the statute of Wetlands of International Importance was granted to the territories with following geographic coordinates:

- Churia Wetlands 42 20', 4143'
- Nabada Wetlands 4215 41 43
- Pichora -Paliastomi 4210 41 50

The area is bordered on the North, East and South with non-populated and non-exploited lands. The western border runs along the Sea sand-dune row, and the eastern border is the city of Poti and the Paliastomi lake.

The territory for the oil and petroleum products transfer terminal is located within above-mentioned coordinates, near the estuary of the River Khobi.

According to article 2.5 of the Ramsar Convention, a party to the Convention has the right "because of its urgent national interests, to delete or restrict the boundaries of wetlands already included by it in the list". According to article 4.2 "it should, as far as possible, compensate for any loss of wetlands resources". [29]

2.Project and Urgent National Interests

In the relation to the urgent national interests concerning the Construction of the oil terminal in the estuary of the River Khobi, there are several main points that should be noted, including:

- The useful geographical location of Georgia for transportation – in the far Eastern part of the Atlantic Ocean and Central Caucasus, ideally suited to economic cooperation with the countries of Eurasia - clearly dictates the need for accelerated development of the port potential of the East Black Sea Coast. Due to the above-mentioned conditions, construction of the new terminal is now in compliance with the TRACECA programme.
- The enhancement of energy-carriers from the Caspian Sea region countries, increases transit volume through Georgia. The construction of a new terminal is under the framework of the Strategy of Georgian Government, granting prioritised transit of hydrocarbons from the Caspian. Exploration and refinery of oil in the Caspian region is intensively developing. The Georgian Black Sea Oil and Petroleum terminals today service 40% of possible cargo from the Caspian region. Without the new oil terminal, this service will be reduced to 30% by the year 2005 and to only 18%.in the year 2010.
- Georgia already has port potential located near cities (Batumi, Poti, Sokhumi,) that, along with transporting, have other important functions (industrial, cultural-administrational, recreational-tourist). The territory is limited because of developed industry and population density. As a result, imperfect infrastructure has caused urban-ecological conflict situations. Therefore, it is reasonable to develop new port potential. This means multiple transport development of the coast to ensure that important marine recreation zones of the country do not became a continuous industrial-transport region.
- Participation of the Kulevi Terminal (together with Poti and Batumi harbours, Supsa terminal and Anaklia) in the transport delta means further expansion of Georgia's modern trade-economic relations and formation of transport infrastructure satisfying modern requirements. This will safeguard transport operations from technical, as well from environmental points of view. Accordingly, it is expected that Georgian port

hinterlands (South Caucasus and Central Asia Countries) and foreland (Russia, Ukraine, Bulgaria, Romania, Turkey, Greece and partially Italy) will increase.

- Construction of the Kulevi terminal may mitigate extensive and persistent transportation-reconstruction problems of the Batumi and Poti ports, and support geographical distribution of environmental pressure as well as protect recreational resources.

Conclusion: The Kulevi Terminal development, without a doubt, represents the interests of international economic, whole state and local social-economic development. Its functioning makes economic, social and political sense in the country development strategy.

In case the project is not be implemented, there will be negative results, among which are:

- Without the participation of the Kulevi terminal, the possible capacity of the port (50-60 million tonnes annually) will not be reached by the year 2015 as targeted by the [transportation] field strategy.
- As a result of low technical provision for oil and petroleum products, transportation of transit cargo will significantly decrease and Georgia will loose its position in the market of petroleum products transportation.
- The further development of trade and economic relations of Georgia will be limited.
- the low capacity of the railways and existing ports will be continue, creating a danger for proper functioning of the TRACECA project on Georgian Territory.
- Investments in this field will become less attractive, thereby reducing State tax income, as well as incomes of the Georgian population, railway and energy sector.
- Due to the difficult social-economic situation and lack of a short-term development alternatives in the Khobi region, the social-economic conditions will not improve leading to migration of the population.

Positive results of the Kulevi Terminal should be mentioned:

- Functioning of Terminal will improve the economical situation, particularly:

Attraction of hard Currency:	300 million USD from 2002-2004 200 million USD annually, from 2005
Taxes:	57 million USD 2002-2004 more than 38 million USD from 2005
Ensuring Railway Incomes :	120 million USD 2002-2004 80 million USD annually, from 2005
Ensuring Energy Sector Incomes:	8 million USD 2002-2004 5.4 million USD annually from 2005
Direct incomes of Population:	4.5 million USD 2002-2004 2.5 USD annually, from 2005

- It is anticipated that the project will reduce unemployment in the region. By 2005, at least 500 persons will be employed, with average monthly salary of 250$. Foreign specialists will be necessary only for training of local personnel, modern management methods and to solve other tasks for which no experienced persons are available locally.
- View of natural factors – Kulevi terminal will be constructed on territory that is unsuitable for industrial or agricultural purposes. Construction and operation of the terminal will not cause irreversible damage, such as: substantially changing climatic conditions, destroying archaeological and cultural objects, full devastation of any species of flora and fauna, loss of valuable natural landscape, invasion and spreading of non-native species, or degrading of existing economic infrastructure. Of course there would be negative impacts on the environment, but at the same time it is possible to compensate for these impacts through even partial improvement of the environmental situation. Construction and operation of Kulevi Terminal supports optimal geographic reallocation of ecological pressures, saving recreation resources within the contact zone of the aquatic territory already developed and promising port potential.

- The terminal will be able to function and provide economic benefits for at least 50 years.

Taking all of this into account, it can be concluded, that in the Kulevi district, River Khobi estuary, which is a part of the territory protected by the Ramsar Convention, construction and functioning of an oil and petroleum products loading terminal is qualified under the ‘urgent national interest’ category according to the guideline principles of Ramsar Convention.

4. Compensation of Ramsar Territory

Project territory of the terminal

The project territory of the terminal, about 100 ha (where about 30ha are wetlands) is located near the estuary of the River Khobi (near the village of Kulevi) and represents 0.18% of the whole territory of the Central Kolkhety wetlands.

In the Central Kolkhety wetland boundaries, the above mentioned territory has been under anthropogenic pressure for the last 150 years. This caused significant transformation, particularly due to the following factors:

- Construction of Fort Redut-Kale by Russian Troops in 1804
- Subsequent transformation into a trade harbour
- Subsequent function as fish factory
- During the Second World War the river estuary and surrounding waters and coastal zone was used as haven for submarines.
- After the Second World War the territory was used as a military training ground
- Finally, the economic profile of this territory was characterised by local agricultural production.

Accordingly, population dynamics have changed in the village of Kulevi from a maximum population of 872 persons in 1926 to 316 persons in 1989.

As indicated by archaeological and historical records, the large territories on the banks of the river’s estuary were developed for economic and settlement purposes. Permanent anthropogenic impacts on the territory substantially changed its landscape, and the fragment of river estuary bed, where the terminal will be located, has become quite damaged in relation to the nutrition and wintering of waterfowls.

Taking into account the above-mentioned it is clear that the Kulevi project territory does not meet the requirements of the Ramsar Convention Criteria.

References

[1] . The Convention on wetlands of international importance especially as waterfowl habitat, Ramsar, 2.2.1971 as amended by Paris Protocol of 3.12.1982

[2] "Project appraisal document on a proposed credit in the amount of SDR3.2 million and a grant from the Global Environment facility in the amount of US$1.3 million equivalent to Georgia for an Integrated Coastal Management project" Document of The World Bank, report No: 17131 GE, 24 November, 1998, Environmentally and Socially Sustainable Development Sector Unit, ECA region.

[3] Baku-Ceyhan pipeline - The project entails the construction of a $2.4bn, 42-inch oil pipeline from the Azeri capital, Baku to Yumurtalik near the port of Ceyhan in Turkey. Projected annual capacity is 50m tones of oil. First - stage capacity is to be about 400,000 barrels per day (bpd), which is to increase to 1m bpd in four or five years. Construction is scheduled to start in 2001 with the first oil flows expected in 2004.

[4] EU TRANSPORT CORRIDOR EUROPE CAUCASUS ASIA involves the refurbishment of the Silk Road regional initiative with the development of railways, roads, ports and airlines. The key element has been the railway line between Poti/Batumi and Baku, and redevelopment of existing ports in these cities.

[5] Energy and Transport in the Black and Caspian Sea Regions – barriers and gateways to regional integration , EBRD, Annual General Meeting, May 2000, Riga

[6] Supsa Port was developed as a part of the "Early Oil Pipeline", with financial involvement of the IFC and EBRD. See Annex II.

[7] MARPOL - International Convention for the Prevention of Pollution from Ships.

[8] e.g. - during the Supsa Terminal construction, the one of the important requirements requests from of NGOs was – the construction of wastewater treatment facilitiesy. However, due to the lack of the funds, no wastewater treatment facilities were built it has not been done.

[9] Interviews with local residents, Green Alternative, Black Sea EcoAcademy , 2001

[10] "Project appraisal document on a proposed credit in the amount of SDR3.2 million and a grant from the Global Environment facility in the amount of US$1.3 million equivalent to Georgia for an Integrated Coastal Management project" Document of The World Bank, report No: 17131 GE, 24 November, 1998, Environmentally and Socially Sustainable Development Sector Unit, ECA region.

[11] Georgia-Agricultural Development II project" report No.PID7379

[12] FAO Water Report 1997

[13] EC Tacis/World Bank Joint Environmental Programme: EIA World Bank Irrigation and Drainage Community Development Project, Georgia February 2001

[14] ARGOMAR OIL Handelsges.m.b.H. (Wholesale company, was founded 1995. The company traded (in transit trade) with oil and fuels (Diesels, heating oil, lubricants) between Turkmenistan, Azerbaijan, Georgia and France, Italy, Greece, Croatia (and also exclusive contracts with fishing fleets). Since 1998, , the enterprise has worked only in administrative activities, and is due to be phased out.. The activities are to be taken over by enterprises abroad.

[15] US Energy Information Administration (EIA) www.eia.doe.gov, April 2001

[16] Project sponsor claims that according to the Georgian Law on "Kolkhety Protected area and management" the railway will cross the part of National Park, among the borders of territory under the Ministry of Defense management and on this territory restrictions designed by law will go into the force only after year 2009.

[17] It should be mentioned that project sponsor submitted Project Technical documentations and imperfect EIA in relevant Ministries only on 4 April, 2001.

[18] Company is created and exists under the Cayman Islands Laws

[19] US Energy Information Administration (EIA) www.eia.doe.gov, April 2001

[20] Batumi Port the master palns for Batumi and Poti port part development was developed by HPTI-Dornier-RMC Consortium funded by EU Tacis under the project "Feasibility study of new terminal facilities in the Georgian Ports"

[21] EBRD/IFC invest in oil development in the Caspian Sea, 19 February, EBRD press-realize

[22] MARPOL Convention, Annex 1, regulations for prevention of Pollution by oil, Regulation 13-19

[23] Country Profile, 2000 , EBRD

[24] "EBRD will invest four energy project in Georgia" Reuters 2000 Limited, 21 July

[25] TDA Signs Grant For Oil Refinery Project In Republic of Georgia, TDA press-realizes 1997

[26] A "Golden Gate" –between East West Markets- Invitation for tender, US Embassy Tbilisi, 10 May, 2000

[27] (The document is translated from Georgian by Bankwatch, the wording may be different from English version submitted by Ministry in Secretariat, however, translation corresponds with Georgian version)

[28] Resolution of the Parliament of Georgia on Accession to the Convention on wetlands

[29] Convention on Wetlands of International Importance especially as Waterfowl Habitat, Ramsar 2.2.1971 (As amended by the Paris protocol 3.12.1982)

Kratka 26, Prague 10, 10000
Czech Republic
www.bankwatch.org
e-mail:main@bankwatch.org

Chavhcavadze av 62,
Tbilisi,380062
Georgia
e-mail:greenalt@wanex.net