

The CEE Bankwatch Networks Mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation

AZERBAIJAN RAILWAYS – NO SIGNS OF LIGHT AT THE END OF THE TUNNEL

While Azerbaijan's state railways are enjoying the growing interest of international financial institutions (IFIs) ready to finance the overall rail infrastructure refurbishment, civil society groups are asking questions about the profitability and sustainability of the railway loan schemes. Behind the non-oil development disguise of international support, oil-driven investment is being seen once again, with little benefit for people in Azerbaijan.

Background

The Azerbaijan Railway Company "ADDY" is a fully integrated state railway company that is responsible for operating the railway system throughout Azerbaijan. It handles both passenger and freight services. It is a state-owned enterprise that is subject to the direction of the Ministry of Transport. ADDY transports about a third of the freight ton-km in Azerbaijan and about six percent of the country's public passenger-km.¹

Azerbaijan's location on the western shore of the oil-rich Caspian Sea and east from Georgia makes it an attractive transit country to connect western markets with the oil deposits. The transport of oil and oil products constitutes about 75 percent of Azeri freight traffic. ADDY operates a rail network of more than 2,100 route-kilometres, where the majority of those kilometres are electrified. In 2006, the railway moved more than 30 million tonnes of cargo, in addition to its sizeable passenger operation.

IFIs' investment strategies contradict practice

In 2006 the World Bank's International Bank for Reconstruction and Development (IBRD) initiated a due diligence process for a USD 80 million loan for the Rail Trade and Transport Facilitation project, designed "to improve sustainably the competitiveness, commercial orientation and efficiency of ADDY to capture increasing oil transit and trade flows and increase its profitability".² Although marketed as an investment opportunity promoting diversification and growth of the Azerbaijani non-oil sector, the project focuses on the facilitation of the freight railway traffic along the east-west line connecting Azerbaijan with Georgia. The project is still in the IBRD's pipeline with the voting over the credit postponed.

ADDY is currently also awaiting a verdict on a USD 30 million loan from the European Bank for Reconstruction and Development (EBRD) which is considering to finance the refurbishment of electric shunting locomotives, depot equipment and track maintenance machines. The project, which is expected to "assist ADDY in meeting the increasing demand for oil and oil products traffic primarily along the east-west trans-Caucasian railway line"³ passed the final review stage and the EBRD board of directors is expected to take a decision on 12 June 2007. This seems to be a surprising development given the EBRD's strategic focus on non-oil and gas sector regional development declared in the EBRD Country Strategy for Azerbaijan⁴ and promoted publicly by the EBRD President Lemierre⁵.

One of the transitional requirements of the projects is the conversion of ADDY into a joint Stock Company. The civil society perceives this as a step to possible privatization of the company which might inflict negatively on tariffs for passenger traffic. The unsuccessful practice of Azerbaijan's water, energy and gas companies (Azersu, Azerigaz, Azerenergy), which were also transferred to joint stock companies with the help of loans from the IFIs, shows that the quality of service remains low while tariffs grow.

Project ineffectiveness

Elshad Huseynov, Director of Transtransport Complex Problems Institute believes that the refurbishment of the outdated locomotives currently used by ADDY is not effective and that it is only an expensive, temporary measure.⁶

¹ http://www.azstat.org/publications/azfigures/2007/en/015.shtml#t15_2

² Rail Trade and Transport Facilitation Project Information Document, http://www-wds.worldbank.org/servlet/WDServlet?pcont=details&eid=000104615_20060119151213

³ ADDY: Locomotive Project summary document, <http://www.ebrd.org/projects/psd/psd2005/30584.htm>

⁴ EBRD Country Strategy for Azerbaijan, May 17, 2005, <http://www.ebrd.org/about/strategy/country/azer/strategy.pdf>

⁵ "EBRD's Focus in Azerbaijan is Non-oil Sector Development", EBRD President, 28.11.2006, Trend News Agency, <http://mirror-usa.news.trendaz.com/cgi-bin/readnews2.pl?newsId=867081&lang=EN>

⁶ Elshad Huseynov, Director of Transtransport Complex Problems Institute, "Opinion on ADDY: Locomotive Project", 2007.

History has demonstrated that after refurbishment ADDY locomotives would remain in their previous technical state even after repair.

There is a need for a return in terms of economic and social benefits for the USD 132 million investment (under the Rail Trade and Transport Facilitation World Bank Project: USD 80 million from the World Bank and USD 22 million from the borrower⁷; under ADDY: Locomotive Project: USD 30 million from the EBRD)⁸ so it is crucial for both the Azerbaijani government and the IFIs that it is based on an expectation of increased traffic.

However, such an increase in traffic is far from certain. The east-west trans-Caucasian railway line between Baku and the Georgian border runs in parallel with the BTC pipeline, thus duplicating the capacity of the pipeline. The BTC pipeline has already been facing problems connected with a lack of oil to transport; a further decrease is foreseen due to decreasing Azerbaijani reserves. It is therefore surprising that the IFIs are ready to invest in the construction of a railway facility which will on the one hand be unprofitable and on the other hand could probably undermine the profitability of another project the development institutions financed in the past.

While western companies are lured by the prospect of selling old, semi-modernised or new locomotives to developing countries, there are no efficient mechanisms of public control over the implementation of the contracts. The IFIs need to ensure that the Azerbaijani project does not end up mired in the corruption scandals that have occurred in some eastern European countries such as Bulgaria.

Environmental problems

The oil transported over the trans-Caucasian railway line will come from oil deposits in Azerbaijan, Kazakhstan and Turkmenistan. This requires that the oil is transported to Baku by ferries traversing the Caspian Sea. Environmentalists have been warning against the environmental impacts and risks connected with ferry transport across the biologically unique and sensitive Caspian Sea. Despite the urgency, an assessment of the oversea transport impacts has not been conducted. Moreover, there is a risk of oil leaks from the hydraulic and pneumatic systems of the locomotives.

Zero information disclosure

Even though the railway projects provoke questions on environmental and economic sustainability, the Azerbaijani public has had virtually no opportunity to learn about and debate the project. The Oil Industry Workers Rights Protection Organization Public Union has repeatedly requested EBRD and ADDY to disclose environmental analysis and information on public consultations surrounding the locomotive refurbishment project. However, neither of the parties has disclosed the documents up to now. The EBRD has so far refused to release the documents arguing that they are part of its internal due diligence.

Conclusions

Passenger railway transport at the moment accounts for only 5 percent of overall railway transport in Azerbaijan⁹. If the IFIs are serious about sustainable development in Azerbaijan they should be focusing on shifting their support from freight to passenger transportation. They should also oversee that the transfer of ADDY into a joint stock company is undertaken in an efficient and transparent way.

As a minimum, the IFIs should ensure that ADDY acts in line with their policies and local legislation, informs the public about potential environmental impacts and mitigation measures and releases project documentation. The overhauling of locomotives should be eliminated from the project provisions and all funds should be directed to purchasing new and innovative locomotives that are energy-efficient and have minimum environmental impacts and risks.

For more information

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⁷ http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2006/01/19/000104615_20060119151213/Original/Project0Inform1ment010Concept0Stage.doc

⁸ According to the Head of the EBRD's resident mission in Azerbaijan

⁹ http://www.azstat.org/publications/azfigures/2007/en/015.shtml#t15_2