



**European Bank**  
for Reconstruction and Development

Mr Mark Fodor  
Executive Director  
CEE Bankwatch Network  
Na Rozcesti 1434/6  
190 00 Praha 9 - Liben  
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12 December 2014

Dear Mr Fodor,

Thank you for your letter sent to President Chakrabarti raising concerns on Nak Naftogaz Project, dated 8 December 2014. He has asked me to respond on his behalf.

The UPU pipeline which has been in operation for 30 years, extends from the border with Russia (near the gas metering station Sudzha and the Ukrainian town of Sumy) to Uzhgorod (located close to the country's border with Slovakia).

The ultimate aim of the Project is to improve the safety of the operations and thus reduce potential adverse impacts to the communities and employees and to ensure an uninterrupted supply of gas through the repair of the pipeline. No new land take will be required except for an 800 marsh crossing which is described below. In compliance with the Ukrainian technical requirements for the operation of main pipelines, introduced after the UPU pipeline was put into operation, a reserve pipe should be in place to allow diverting a flow of gas in case of the maintenance, repairs or accidents, in order to maintain a steady supply of gas and avoid the release of methane into the atmosphere. The marshland crossing was chosen after the review of alternative locations to minimise the landtake and also to ensure the reserve pipe is located within the technologically required parameters. The national EIA identified that the proposed crossing will not result in significant environmental or social impacts due to the existing footprint, and any impacts will be localised and short-term and mitigated by a horizontal directional drilling method for laying a pipe. An additional pre-construction survey will be conducted to supplement the EIA findings. This survey is included into the Environmental and Social Action Plan (ESAP) and is required as a legal condition that must be met prior to disbursement.

With regard to the categorisation, the Project was categorised B on the merits of the scope of the planned activities. The scope will include the repair of existing pipes, including the replacement of severely corroded original welded joints and cathodic protection stations, for those individual sections of the pipeline where critical faults were identified by a technical feasibility study. The cumulative length of individual sections to be repaired is 118.99 km out of total 1139 km of pipeline in Ukraine. The Bank will finance four non-continuous sections.



In addition the Project will also finance a modernisation/replacement of two compressor units at the Romny Compressor station. The main objective is the increase of the efficiency of these two turbo-compressor units from 27.5% to 35.7% (ISO conditions). The energy efficiency gains will result in a significant decrease of fuel consumption from 9050 m<sup>3</sup>/hour to 7000 m<sup>3</sup>/hour for each unit when operated under design conditions, and reduce NO<sub>x</sub> and CO emissions. With regard to the date of PSD availability, a request for deferral of the release of the PSD was granted by the Office of the Secretary General in discussions with Management and in line with the deferrals allowed in the PIP. The Board has endorsed this request. The timing of this particular Project is based on the urgency of the investments to be financed to ensure the integrity of the pipeline and the speed of repairs, and because the Project was subject to changes at the Final Review stage. The PSD will be updated to include a summary of the ESDD process, and will mention the shortened time period of the PSD release and the rationale for the deferral.

In addition to the National EIA reports, the Bank's Environmental and Social Due Diligence (ESDD) included a review by independent consultants of several technical and social reports and other relevant documents required for the project development under the Ukrainian regulatory requirements.

The disclosure of the national EIA was conducted in compliance with the Ukrainian requirements, which included a publication of *the Declaration of Intent* in national and local papers.

As a result of independent ESDD, an ESAP and a Stakeholder Engagement Plan (SEP) have been developed and agreed with Ukrtransgaz. The ESAP contains inter alia, actions aimed at improving Ukrtransgaz's management systems, developing Construction Environmental Management Plans; and obtaining required permits prior to the construction. The company will be assisted by a Project Implementation Unit in implementing the ESAP. In addition, the performance and implementation of the ESAP will be monitored by independent consultants.

Yours sincerely,

**Alistair Clark**  
**Managing Director, Environment and Sustainability Department**

cc: Sir Suma Chakrabarti  
President  
EBRD