Bankwatch Mail
CEE bankwatch network
Newsletter of the CEE Bankwatch Network on International Financial Flows
Issue 20 April 2004

Energy but not for Sakhalin

The Sakhalin Energy Investment Company Ltd. is the main operator of the Sakhalin-2 project, which provides the oil and gas production from two marine fields to the north-east of Sakhalin (Russian Far East, the island located 40 km away to the north of Japan). Holding 55 percent of Sakhalin Energy stocks, Royal/Dutch Shell plays a vital part in this project. Phase 2 of Sakhalin-2 project includes the building of two marine gas-and-oil production platform; the building of six submarine pipelines, an onshore processing complex, a ground-based 800 km oil and gas pipeline from the north to the south of the isle; the building of an oil shipping terminal and the biggest liquefied natural gas plant in the world with its marine terminal in the south of the isle, on shore of the Aniva bay.

Colourful slides, glaring booklets, cheerful statements promising thousands of workplaces and millions of profits, and full preservation for unique fish resources. All this greeted Sakhaliners at public auditions concerning Phase 2 of the Sakhalin-2 project, carried out by the Sakhalin Energy Investment Company Ltd. in December 2001 in Yuzhno-Sakhalinsk. Why did people believe these promises? They were so tired of a poverty, an economic depression, problems with public utilities and unemployment. In no time at all, it was presented, the project would start working; and then income would begin to flow towards the budget, work would be available for everyone with excellent roads everywhere. Life would become better and our nature would be preserved by foreigners into the bargain as trumpeted by their PR people.

However, at the turn of 2003, restrictions were removed and Sakhalin Energy proceeded with its project implementation. Immediately, all hopes and expectations began to disappear, and local fears and apprehensions started to come true.

“The technical and economic estimations presented in foreign firm propositions prove an opportunity of a gas supply in the home market in 1995”: this is the citation from the decision of the Russian Government Commission which summed up the Sakhalin-2 project competition in 1992. Such a basis allowed the MMM Consortium (which turned into Sakhalin Energy in 1994) to acquire a right to exploit the Piltun-Astokh and Lun oil-and-gas field. And what about a gas supply in the Sakhalin and Russian home market now, in 2004? There is no way.

We will teach you to like Shell...

(continued on page 5)

Contents:

Energy but not for Sakhalin 1
EBRD takes action on Uzbek human rights 1
EBRD must make “publish what you pay” stick 2
K2R4: the never-ending story 3
The EBRD and Smithfield Foods: Polish pig farmers stuck in the middle 4
Filling the EBRD’s natural resources and energy policies void 4
European Parliament boosts the MDBs renewables debate 6
The green alternative for Georgia: an interview with Manana Kochaldze 7

EBRD takes action on Uzbek human rights

A year after calling for improvements in the political and economic situation in Uzbekistan, the EBRD concluded on April 6 that there has been very limited progress and is no longer able to conduct “business as usual”. The Bank will remain engaged in Uzbekistan but it can only focus its activities on the private sector and those public sector projects that finance cross-border activities or clearly benefit the Uzbek people.

In March 2003, the European Bank for Reconstruction and Development (EBRD) adopted a new country strategy for Uzbekistan, less than two months before it held its annual meeting in Tashkent, the Uzbek capital. In its strategy, the EBRD expressed “serious concern” over the human rights situation in Uzbekistan, citing “[s]ystematic violations of the freedom of religion, expression, association and assembly,” and problems of “arbitrary arrests and torture of detainees.” To address these and other concerns the Bank adopted a series of benchmarks for the Uzbek government to fulfil, making continued investment in Uzbekistan contingent on satisfactory progress in these areas and setting a one-year deadline for compliance.

Three of the benchmarks pertain specifically to human rights: (1) greater political openness and freedom of the media; (2) registration and free functioning of independent civil society groups; and (3) implementation of the recommendations issued by the United Nations Special Rapporteur on the question of torture and other cruel, inhuman or degrading treatment or punishment (U.N. Special Rapporteur on torture), Theo van Boven, following his country visit to Uzbekistan in November-December 2002.

(continued on page 2)

EBRD takes action on Uzbek human rights

(continued from page 1)

While the Bank did not attach the holding of the annual meeting in Tashkent to improvements in human rights, the approach the Bank took in the country strategy was significant in that it made clear that the Bank expects reforms in exchange for its engagement with the government. An important statement regarding Uzbekistan was also made by EBRD President Jean Lemierre, who in his press conference at the conclusion of the May 2002 annual meeting in Bucharest made clear that holding the annual meeting in Tashkent was "not an endorsement" of the Uzbek government's human rights record, but rather "an incentive to make progress."

One year after the adoption of the country strategy, it is clear that the benchmarks did not trigger the necessary reforms. This failure is attributable, first and foremost, to the Uzbek government's flagrant disregard for human rights and democracy, an attitude exhibited even during the EBRD annual meeting, when police detained or placed under house arrest human rights defenders to prevent them from attending public demonstrations, restricted media coverage of the event, and harassed and intimidated civil society activists participating in the meeting.

In Uzbekistan, opposition political parties and independent civil society groups cannot function without fear of interference, harassment, confiscation of materials, and detention and ill-treatment. The government continues to harass human rights defenders, has not registered independent political parties or human rights groups, and has imposed additional, more burdensome registration requirements on international NGOs. Informal censorship of the media persists. Nor has Uzbekistan made substantial progress on eliminating the systematic practice of torture in Uzbekistan.

Furthermore, last year's EBRD AGM in Tashkent was followed by increased pressure on Uzbek groups and individuals who spoke out about the poor human rights situation and economic performance. Mikhail Kurbanov, now sentenced to long term imprisonment on charges of espionage and sexual interference of minors, wrote in his plea while in custody, "If it is true that because of me Uzbekistan was deprived of EBRD loans, and our president had to listen to strong criticism, then I ask for capital punishment for myself, as for a real traitor."

The Uzbek government's failure to make credible progress in meeting the benchmarks has resulted in consequences, as evidenced by the EBRD's sensible decision to scale back its lending. However, it is imperative that the Bank continues to use the benchmarks as policy tools for reform. As reported in The Guardian (April 7), the immediate response from the Uzbek government to the EBRD decision was, "If they want to write off Uzbekistan and suspend cooperation with us like with Turkmenistan, this odious regime, we will view their decision as an affront to central Asia."

This underlines that there is substantial distance still to be traveled and we firmly believe that if properly supported by resources and political will, these benchmarks have a real potential to trigger reforms in Uzbekistan. The EBRD should make the most of its political mandate and use the benchmarks to press for tangible reforms. It should ensure that a coherent system of sustained monitoring of Uzbekistan's progress in meeting the benchmarks is set up, and publicly call for change. But other major players must show a willingness to engage and not leave the EBRD isolated in its efforts. For any leverage exercised by a multilateral body to be effective, the individual governments affiliated with it must be committed to making the established calls an integral part of their bilateral relations with the target government. It is far from clear whether the EBRD's shareholder governments are keen to take this step.

The EBRD decision to review its strategy towards Uzbekistan creates "good momentum" for progress on human rights in the whole region. The international community, and especially the World Bank and other international financial institutions with operations in the region, must endorse this development and react accordingly. World Bank President Wolfensohn said on the Dialogue on Human Rights and Development in March this year: "I can assure you that, from the point of view of the bank, […] we are deeply committed and interested to try and clarify the role of [human] rights in development. How we can go beyond language to try and make our work more effective, and how we can, from the point of view of advocacy, join together to get some effective results."

Perhaps the EBRD's President Lemierre and the Board of Directors can give him some hints on how to transfer commitment to practical steps.

► HRW report on Uzbekistan: http://hrw.org/backgrounder/eca/ebrd_benchmark.pdf
► Bankwatch webpage on Uzbekistan: http://www.bankwatch.org/issues/ebrd/downloads/mainebrdcountry.html

EBRD must make "publish what you pay" stick

It is now generally accepted that a lack of transparency in the oil, gas and mining industries has profoundly negative effects. It has made possible the misappropriation or misuse in many countries of huge revenue sums in which could have been used otherwise to promote development and underpin democratic government. Without transparency, citizens cannot hold their governments to account for the use of oil, gas and mining revenues.

The EBRD has recognised the need for revenue transparency by endorsing the Extractive Industries Transparency Initiative (EITI). By so doing, the Bank has committed itself to promoting transparent revenue reporting and to working with governments and other international financial institutions to this end.

This step is welcome, but endorsing the principle of transparency will not in itself bring about reform. To create real change, the EBRD should require the full public disclosure of revenues by all extractive projects that it invests in, as a condition of its investment. In countries where oil, gas and mining are economically significant, all the EBRD's engagements with governments and state agencies should also be based on public disclosure by the latter of their earnings from these industries. This should be a key element in the updating of the EBRD's Natural Resources policy.

By Diarmid O'Sullivan
Global Witness

► Global Witness website: http://www.publishwhatyoupay.org/
► Report Time for Transparency http://globalwitness.org/reports/show.php/en.00049.html

K2R4: the never-ending story

It is difficult for Ukraine's President Kuchma to forget about a project which he has argued in favour of for so long. There have been too many promises. Mindful of G7 promises to Ukraine, it is difficult for EBRD to now say no to the project. It 1998 it was said for the first time that project financing is secured. And now?

Reactors should be completed at all costs, it is the state priority. It hardly matters why anymore - the story is too long - but one thing is clear: President Kuchma worries about it. During a recent meeting at the Rivne power plant he started with a complaint: "I read a report on K2R4 completion last night at about 11. Then I could not sleep, I tossed and turned."

It was once said that we have these reactors as they are 'almost completed'. However, it was surprising that this 'almost' was estimated to be costing USD 1,48 billion. According to Energoatom they have never stopped construction at the reactors throughout the last ten years and it is still 'almost completed'. During the same period, fossil power plants were falling apart just staying in reserve as there were no consumers able to buy electricity.

Nuclear threat blackmail – that has always been the strategy of the Ukrainian nuclear industry. At the international level, while Ukrainian delegations were connecting Chernobyl closure with money for new reactors, in Ukraine the nuclear industry has demanded money for itself by frightening the government and public with allegations about the 'hungry operators of the reactors' who are naturally more dangerous than the hungry teacher, doctor or even the operators of coal-fired power plants.

As a result Energoatom, operating at about one quarter of installed capacity, produces half of the country's electricity, proudly announcing this fact on billboards around the city. How have they achieved it since they were practically bankrupt some five years ago? It was easy, as Energoatom has received far more state support than electricity producers. Look at the Chernobyl power plant. It was part of Energoatom when it was still bringing in money, and now the company has no decommissioning burden as the plant is no longer their property.

Furthermore, according to a Ukrainian government decree, since 2003 the electricity price of all producers will be taxed (they call it a special purpose surcharge) to accumulate money at the budgetary fund dedicated to the completion of K2R4 along with a couple of similarly useless projects. Thus in effect all electricity prices for industry consumers have been raised in order to complete the reactors. And perhaps to let Kuchma sleep well.

In 2004 Energoatom expects UAH 600 million to come from a special budget fund contributing to the publicised need of UAH 1,2 billion (USD 225 million). The difference is expected to come from the selling of bonds specially issued for completion of the reactors. By the end of March UAH 230 million had been raised via the bonds sale. It is clear that the government will find a way to persuade buyers (commercial banks primarily) to buy more of the bonds.

Nuclear operators safety training organised by the EBRD

The project seems to have a bright future. The public pays and no foreign funding is needed. Kuchma recently commented, "They (the EBRD and EC) promise to give us money in the summer or autumn. They can keep it. We will be able to complete it ourselves. I do not have any doubts." To ensure that there is a scapegoat, the president has made personalities responsible: "I would like to urge Mr Klyuev (vice Prime Minister) that if the units are not started on time, a decision on his dismissal will be taken. There is no place for fooling around with issues of state interest."

However, the Ukrainian government is still intent on receiving funding for the reactors from the EBRD and Euratom – and now it's for modernisation of the reactors. The idea is to upgrade the units to increase their safety after completion. There is a noticeable lack of information on this available from the EBRD itself, so a lot of questions are raised. It is not clear how far the negotiations have progressed, what the project aim is, nor what kind of modernisation can be expected once the units are connected to the grid?

In a letter recently prepared by a number of NGOs there was strong opposition to the current EBRD plan for financing this project. NGOs have questioned the approach being proposed - and sanctioned by EBRD involvement - by the Ukrainian authorities. The attempt to increase the safety of reactors after their completion makes a mockery of previous statements by the Bank on the importance of nuclear safety. If EBRD nuclear experts believe that safety improvements are needed, then these should be undertaken prior to a reactor being operational. To propose to undertake these measures after the reactor is operational makes a nonsense of international safety procedures.

The completion of the K2/R4 reactors will decrease the overall level of nuclear safety in Europe. Even taking into account the proposed post-completion safety upgrade, these Soviet-designed reactors would not receive a construction license in Western Europe. Experience with the completion of the Czech nuclear power plant at Temelin provides clear evidence that VVER 1000 reactors cannot be upgraded to a satisfactory safety level. Moreover, safety procedures in Ukraine are lower than in other European countries and the modernisation programme is not being implemented according to plan due to a lack of funding.

The Khmelnitsky and Rivne nuclear units are scheduled to be operational on August 14 and September 16 respectively. Neither President Kuchma nor the government have provided a rationale for these dates, but the Ukrainian political calendar does. The country is facing presidential elections in October and state bureaucrats, with links to the Soviet era, need gigantic achievements to present to the public. It does not matter how controversial and senseless such achievements are – the puppet media are adept at shaping public opinion.

►Bankwatch website on K2R4: http://www.bankwatch.org/k2r4/index.html

Filling the EBRD's natural resources and energy policies void

During the EBRD AGM in Bucharest, 2002, Bert van der Toom (Deputy Director of the Natural Resources Team) announced to NGOs the start of a review of the Bank's Natural Resources Policy. The policy is also supposed to reflect the new structure of the Bank and the work of the entire Energy Sector Business Group. Now, two years on, the EBRD still has not accepted the new policy. But this delay also provides new opportunities. At the end of 2003, the World Bank Group commissioned the Final Report of its Extractive Industries Review (EIR), which gives a number of recommendations to the World Bank that are also relevant to the EBRD. Those recommendations range from the implementation of pro-poor policies - putting more balance into the distribution of revenues through guarantees of human rights, increased transparency of oil revenues, declaration of environmental sensitive areas as no-go zones for the World Bank extractive industry investment - to the call for the replacement of fossil fuels lending with investment into renewables or energy efficiency in order to reduce the climate change impact of the World Bank investments.

Some of the industries who benefit from low environmental, social and human rights standards have attacked the recommendations, with some industry associations, such as the International Council on Mining and Metals, lobbying heavily against the adoption of this document.

(continued on page 7)

The EBRD and Smithfield Foods: Polish pig farmers stuck in the middle

Following a two year campaign, Polish green groups recently welcomed a new legal act on fertilizers and fertilization which includes strong environmental obligations for industrial animal farms. It will bring relief for people living in the countryside and for the environment but still keeps big animal business on track. One such business is the notorious US food giant Smithfield Foods, already well-established in Poland. The new legislation will not affect Smithfield's expansion which will mean continued social and economic consequences for individual Polish farmers and their families.

In 1999, Animex Ltd, the biggest Polish meat processor, was taken over by Smithfield, the world's largest meat processor and hog producer. Two years later, through a consortium of Rabobank Polska Ltd. and BRE Bank Ltd., the EBRD granted a USD 25 000 000 loan for Animex/Smithfield, raising its reputation in the eyes of other financial institutions (all together Smithfield received USD 100 000 000). In the same year Smithfield started buying Polish farms, using a front company called Prima Farm.

Playing with the law

Prima Farm became a front for Smithfield's dirty work, enabling it to shift the costs of industrial hog-raising onto the environment and onto individual farmers. Since many of its illegal practices, eg over-manuring the land or violating veterinary laws, have been proved by NGOs and several environmental and sanitary inspections, no one is under any illusion that Smithfield's activities will positively influence the changing face of Polish agriculture. Early indications of the long-term economic and social impacts on individual farmers are the over-production of pork and market deregulation.

Where does the money go?

According to the official data, the EBRD's loan is devoted to the modernisation of the meat industry line in the Animex group and has nothing to do with industrial hog-raising. Bearing in mind Smithfield's management policy - vertically integrated production "from breeding to bacon" - this assumption is wrong as the following figures suggest. In 2002, according to an official statement, Animex invested less than USD 1.8 million in the meat processing industry. Some new investments were expected to follow. However as all meat production plants were in compliance with EU sanitary standards they did not need significant financial assistance. Where, then, has the USD 100 000 000 loan provided by Rabobank Polska, BRE Bank and the EBRD gone?

The EBRD feeding Smithfield and the brothers

According to Smithfield, over the last two years the company has invested about USD 27 million in industrial hog-raising in Poland, the money mainly being spent on the construction of new farms. This is only a small part of the investment required for Smithfield's subsidiaries to comply with environmental requirements. Obeying the new law will be more difficult since the Polish parliament has agreed a new legal act on fertilizers and fertilization, which gives additional powers to the environment protection inspectors. Once again, therefore, the greatest pot of Smithfield's money will be spent on hog-raising.

Promoting big animal business

The EBRD has supported agricultural reforms in Central and Eastern Europe for many years. Its main clients are international concerns whose new standards of management and competitiveness, according to the Bank, guarantee success for the transformation process. Unfortunately, the Animex loan example also shows the threat posed by the promotion of big business to particularly sensitive sectors of the economy like Polish agriculture. The EBRD's intended "positive (loan) impact on Polish agriculture as a whole" has turned out to be something entirely different. With control of the pork market, Animex Group is able to set prices at a lower level than the costs of production - in October pork prices fell by 25 percent. Controlled, lowered prices have prevented individual farmers from selling their pork. Meanwhile Smithfield's profits have risen as a result of companies like Prima Farm providing more and more pork for its Animex's meat processing companies. This is the real face of verticlly integrated production.

CEE Bankwatch Network is calling on the EBRD management to conduct a project evaluation before the closure.

►Smithfield campaign at Bankwatch website:
http://www.bankwatch.org/issues/ebrd/animex/manimex.html

Energy but not for Sakhalin

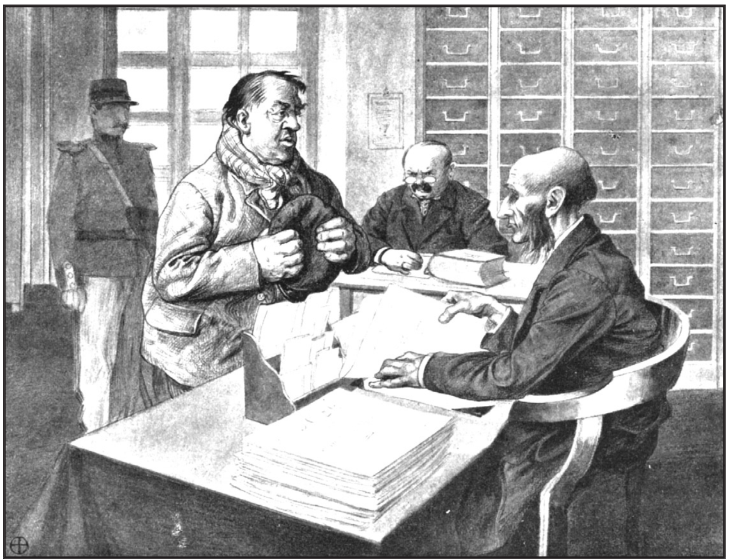
(continued from page 1)

The prices at which Sakhalin Energy intends to sell us our gas are global prices, that is, they are about nine times higher than prices in the domestic market. The oblast authorities understood it long ago – no one can purchase such gas!

There were big promises and hopes attached to improving the efficiency of roads, and now construction has started. Sakhalin Energy began by widely promoting a road and bridge repair program for the island. But the roads have not improved. The point is that the destruction of roads caused by huge construction occurs more quickly and some companies neglect their duties. For example, several hundreds of indignant residents of Ozersky village carried out an action to attract attention to road problems: for one hour they blocked all road traffic from Korsakovo to Prigorodnoe, where the building sites of the LNG plant is situated. The difficulty is that a single road connecting Ozersky with Korsakovo (a regional centre) and other settlements passes through the future LNG plant. Attempting to drive this road is impossible for many of the residents - for a whole week, the settlement received no bread, or post and passenger buses were unable to run. Thus, according to the project, Sakhalin Energy was obliged to construct a bypass road around Ozersky in October 2003, but it has not yet been built. The same catastrophic deterioration of roads is observed equally in the north of island where the company is also conducting major civil work.

People hoped very much that Sakhalin-2 would revitalise the Sakhalin economy and create jobs, and this has occurred to an extent. But the regeneration is observed only in the building sphere and the negative effects from it are huge. A number of highly skilled experts have left traditional Sakhalin branches — forestry, coal mining, fishery — to work at a Sakhalin-2 construction. At the same time, Sakhalin Energy relies on a majority of cheap labour from western Russia and the former Soviet states as they can pay them much less than Sakhaliners. For example, on a Liquified Natural Gas (LNG) plant works construction in December 2003, of 1350 individuals, only 150 were Sakhalinians. Many of the outside workers have convictions and there have already been cases where LNG plant construction workers have raped, robbed and attacked local residents.

A further side-effect comes from the inflow of contract organizations to Sakhalin which has led to a sharp increase in property prices. Today a one-room apartment in Yuzhno-Sakhalinsk costs USD 27 000–35 000 though two years ago the price was USD 5,000–7,000. Such changes strike hardest on people with low incomes of which Sakhalin has many. Official statistics state that more than 50 percent of the Sakhalin population lives below the official level of poverty, i.e, is living in poverty.


We accept job applications only from people with non-Russian passport

Most significantly, however, this economic development for Sakhalin will be temporary. By 2007, employment and contracts for the local building enterprise will fall sharply as the construction of an infrastructure ends. And then, practically all benefits to the oblast from the Sakhalin-2 project will end. All bonuses on the product sharing agreement (PSA) and payments to the Sakhalin development fund were paid a long time ago. Unique guaranteed direct receipts are 6% of a royalty, but Sakhalin incomes will also be reduced from them. We shall receive only 14 per cent from these receipts in 2004 (the rest will go to the budget of Russia), 8 percent in 2005, and only 5 percent in 2006. For five years Sakhalin Energy has extracted oil according to the Sakhalin-2 project's first stage, but in 2004 direct receipts into the budget from the Sakhalin-2 project of only USD 1.2 million are planned.

In July 2003 at a meeting of the Russian-American Pacific Partnership in Yuzhno-Sakhalinsk, the US ambassador to Russia Alexander Vershbow declared that the operator of the Sakhalin-2 project is the largest tax bearer on Sakhalin. The 1.2 million tax revenues from Sakhalin Energy activities can be compared to the USD 97 million which flow into the Sakhalin budget from the Russian company Rosneft which is conducting extraction on old coastal deposits in the north of Sakhalin. The US ambassador seems to have got acquainted with the situation on Sakhalin mostly via the Sakhalin Energy corporate brochures.

Receipts from the project may well increase when the operator pays back all expenses and the section of production begins at last? However the PSA is arranged in such a way that after achieving this Russia will start to receive only 10 per cent from all profitable production. And the 50-50 sharing will begin only when the project reaches a profitability level of 17.5%. Thus the company has the right to include in compensated expenses practically everything it want - and everybody including the top people of the country and oblast understood a long time ago that a PSA favourable to Russia would simply never materialise. How can Sakhalin Energy overestimate its expenses? In 1999 Sakhalin Energy paid a fee of USD 10 million for the provision of some goods and services to company Royal Dutch Shell, i.e. Shell actually paid itself USD 10 million at the expense of Russian oil. More recently it has materialized that Sakhalin Energy needs to increase project expenses by USD 2 billion. Thus the beginning of the production sharing and an increase in incomes for Russia and Sakhalin will be postponed for some years.

Sakhalin Energy is not content that the local population expects so much from its project. The company is afraid that further development will lead to unpredictable consequences as people start to realize that they have been deceived. Consequently in October 2003 the company decided to develop an Expectations Management Program to lower the Sakhilinians growing discontent.

The new governor, I. Malakhov, and his administration fully understand that the Sakhalin-2 project has very few benefits for Sakhalin and may cause considerable harm, especially to the environment. With this in mind Malakhov formally proclaimed the fish industry as the major priority in the region's economy rather than the oil sector, and particularly not the Sakhalin-2 project. The regional authorities have been consistently making such declarations over the last few months. The project primarily threatens local fish resources. And here, the new authority has simply had no time to do anything to alleviate the threat. All approvals, including the environmental one, were granted as long ago as the last governor's term who promoted Sakhalin-2 at any price, regarding environmental requirement as unnecessary obstacles.

(continued on page 6)

Energy but not for Sakhalin

(continued from page 5)

Meanwhile, the 800 km trans-Sakhalin oil pipeline intersects more than 1100 rivers and streams most of which are spawning grounds for the five types of Pacific wild salmon, one of which, Sakhalin taimen, is included in the Russian and International Red Book. Sakhalin Energy has opted for the most dangerous and harmful rivers intersection method - the trench method. In a similar case in Alaska 25 years ago, the oil pipeline crossed spawning rivers via constructed bridges. Sakhalin Energy's oil pipeline will also intersect 22 active seismic breaks and pass underground as well. Common international practice, as well as Russian Building Code, requires an aboveground pipeline on such sections.

Sakhalin Energy has already begun to dump soil into Aniva Bay, an area rich in fish and crabs. Here, 25 percent of all Sakhalin salmon is fished and a major reproduction region of snow crabs is located here. During the building of the LNG works, over 70,000 tonnes of soil have been dumped into the bay. A further one million tonnes is planned to be dumped into the gulf in 2004–2005 is dumped into the gulf. If this strategy is not reformed, the prospects for crab and salmon spawning are bleak.

The project also threatens an endangered population of western gray whales which totals no more than 100 individuals. Sakhalin Energy plans to construct four sea pipelines directly through this population's unique underwater pasture. Construction will destroy ground biological communities — a feeding reserve of the whales — and will force them from these waters, thus threatening the full extinction of this population. The risk of oil spills is immense and, incredibly, Sakhalin Energy refuses to accept any financial responsibility for spills from its tankers. The company has not developed and is not going to develop a prevention and spill response plan for tanker transportations. If an oil spill did take place, Sakhaliners would have no means to mop up and and one such spill could wipe out all fish life on the island. Sakhalin Energy also plans to dump even more huge quantities of harmful toxic waste products in the sea. They continue to dump it at the present – with no permission - in spite of the fact that it is directly forbidden by the Russian legislation. Even, Russian oil companies like Sibneft, Lukoil conduct sea drilling only on the basis of the "zero dumps" standard.

Taking into account all these threats and dangers, and also a number of others, 50 NGOs from four countries, including a number of Sakhalin-based organizations, addressed Sakhalin Energy with some basic project requirements:

- No dumping of any waste products in important fishing sites in the sea (including a building ground in Aniva Bay);
- The need to design a coastal oil pipeline above the ground, on special supports, giving the pipe mobility and integrity during earthquakes;
- Accepting financial responsibility for oil spills from tankers and developing an emergency plan for mopping up spills from tankers;
- Changing the routes of underwater pipelines around the pastures of the gray whales;
- Paying of all taxes into the Sakhalin budget;
- Selling gas to local consumers for local power supply needs at Russian prices

All these requirements have been substantiated and presented in detail. Yet the company has refused to implement, showing, thus, a complete unwillingness to engage in meaningful dialogue and to reasonable compromise. It is also choosing to ignore all the arguments, including expert opinions and legal requirements.

As a result, and also because of the lack of real benefits to local population and Russia from the Sakhalin-2 project, NGOs are urging financial organizations to refrain from loaning or from providing other support to the Sakhalin-2 project until Sakhalin Energy guarantees that it will meet the minimal NGO's requirements meeting. The Sakhalin-2 project must not progress any further in its existing form!

By Dmitry Lisitsyn, Sakhalin Environment

► The common demands by environmental NGOs regarding the Sakhalin-1 and Sakhalin-2 Oil and Gas Projects: http://www.pacificenvironment.org/russia/sakhalindemands

European Parliament boosts the MDBs renewables debate

Shortly after the call from the European Conference for Renewable Energy, organised by the European Commission, for the multi-lateral development banks (MDBs) to prioritise renewable energy sources, the European Parliament has given another boost to the renewables debate.

As a part of the preparation for the Renewables 2004 Conference, the European Parliament adopted a resolution calling for a 20 percent renewables target by 2020 to be adopted by the European Union. It also "ask[s] major financing institutions, such as the EIB, EBRD, World Bank and national export credit agencies, to give priority to investments in renewables and energy efficiency".

This is another signal to MDBs, following the World Bank Extractive Industry Review, that the current pattern of prioritising fossil fuels needs be changed. The EU-25 control nearly 64 percent of the EBRD, therefore there should be no problem to implement changes in the EBRD Natural Resources and Energy Policies. Since renewables will also be part of the new EU targets, the newly acceding countries in particular should use this opportunity to make funding available for renewables.

Filling the EBRD's natural resources and energy policies void

(continued from page 4)

At the same time, however, the report has started to gain support from other stakeholders. CERES, a coalition of institutional investors and public interest groups representing more than USD 400 billion in assets, wrote a letter to World Bank President Wolfenshon stating their "strong support for the recommendations of the Extractive Industries Review".

CERES highlighted that the "[Extractive Industry Review] recommendations, if fully adopted, will help reduce risk for investors and companies. By encouraging greater transparency, better governance and informed stakeholder consent, the EIR recommendations will reduce the risk for companies and their shareholders investing in the developing world." They especially pointed out that "climate change could have a devastating impact on the global economy and thus the health of our own investments." The letter referred to a recent analysis from Swiss Re, that projected that global warming costs could double to USD 150 billion a year in 10 years, hitting insurers with USD 30-40 billion in claims.

We are happy to talk but only about those three commas

The rapidly developing renewable industries also support the report. They too wrote to the World Bank President, "[t]he key recommendation of the EIR that needs your close attention and partnership with our community is the finding that the World Bank Group must establish a 20 percent energy portfolio target for clean, renewable energy and a specific renewables unit within the Bank to achieve that target. This recommendation is a realistic and exciting target, and if implemented, will make a significant difference in the lives of the poor around the world."

But it is not only industry and investors making positive noises about the EIR - the report is receiving increasing political support. In the beginning of April, the European Parliament adopted a resolution that not only endorses the major findings of the report but also suggests that the EIR Report be reflected by the EIB and EBRD. The resolution "[c]alls on the Member States to raise the findings of the report in other national or international financial fora, such as the EIB, EBRD, national credit agencies, etc., to ensure that the problems explored are duly discussed and acted upon", and further, "calls on the Commission to adopt a process in order to reflect the spirit of the EIR recommendations in the EU environmental and social guidelines for economic and development cooperation and notably in its cooperation with the IMF, the World Bank, the EIB and the EBRD".

Petr Hlobil, Bankwatch Campaigns Coordinator, commented on the resolution: "NGOs are looking forward to the meeting with the Board of Directors and we hope that Mr. Philippe Petit-Laurent, European Community Executive Director at the EBRD, together with his colleagues from the EU as well as accession countries, will bring this issue to the EBRD board."

So far the EBRD seems to be wary about discussing the fundamental question of whether the exploitation of natural resources is the best means to achieve economic development or whether other alternative modes couldn't bring sustainable economic development much more rapidly. The east European experience clearly shows that, so far, large extractive projects are helpful only to small groups of corrupted elites, foreign companies profiting from exports, and western markets that enjoy cheap resources.

Perhaps it was this fear that led the EBRD to ignore Bankwatch's suggestion to invite Professor Emil Salim, who conducted the World Bank's Extractive Industries Review, for the Natural Resources panel debate (called "Fuelling process towards diversification: can natural resources build strong economies?") at this year's annual meeting.

The green alternative for Georgia: an interview with Manana Kochaldze

For Manana Kochladze of Association Green Alternative, the Georgian member group of CEE Bankwatch Network, these are remarkable times. The Tbilisi-based NGO has shot to international prominence in recent years while monitoring and campaigning against multi-lateral development bank involvement in the Baku-Tbilisi-Ceyhan (BTC) pipeline project. BTC is of course controversially backed by the European Bank for Reconstruction and Development (EBRD) and a host of other major international lenders.

Despite a legal setback last month which saw Green Alternative seeking unsuccessfully to revoke the environmental permission granted to the BTC Company by the Georgian Ministry of Environment for construction of the pipeline across environmentally sensitive areas, a more recent legal development in Georgia is poised to confirm what campaigners have long been advocating: that BTC is based on unsatisfactory legal foundations that are far less transparent than the promoters suggest..

"One part of our legal challenge from May 2003 called on the Ministry of Foreign Affairs of Georgia and the Parliament of Georgia to provide immediate official publication of the key international agreements which underpin BTC," says Kochladze. "According to the Georgian state law of 'International agreements', after an international agreement is ratified the Georgian parliament must publish it and the court has now recognised that the BTC agreements were not officially published."

Thanks to Green Alternative's resilience in the Georgian courts, the likelihood is that the Georgian Parliament will have to publish the agreements. Nevertheless, such a belated move will only marginally reduce the BTC project's catalogue of scandal that campaigners like Kochladze have compiled. All of which serves to show that the geopolitical and big oil interests which preside over the BTC pipeline's implementation have been playing fast and loose with the interests of the transit countries' citizens for many years now.

These kind of developments are startling but far from uncommon when it comes to the Alice in Wonderland world of the BTC pipeline, and Green Alternative has been striving to provide reality checks on it since the beginning of 2002.

(continued on page 8)

The green alternative for Georgia: an interview with Manana Kochaldze

(continued from page 7)

To the news that the Azeri government has proposed to officially rename the entire pipeline in honour of the deceased former president Hayder Aliev, Kochladze laughs resignedly about the many absurdities involved in such a move. Instead she is keen to concentrate on the centralissues that have failed to go away since Green Alternative became involved in the campaign and which the EBRD and International Finance Corporation (IFC) decisions to finance BTC in November last year have done nothing to solve.

Other than the serious question marks over the project's legal status, she cites the flawed environmental and social impact assessment, pipeline routing problems and inadequate consultation procedures as the main areas where the project promoters and backers have got it badly wrong.

Association Green Alternative was officially registered in 31 July 2000 and currently has 19 active members. Its mission is to create a framework for economically viable and socially desirable alternatives to protect the environment and Georgia's unique biological and cultural heritage, and to be an advocate for social justice and public participation.

The group's activities are not limited to the national and international campaign to improve the BTC project, as Kochladze points out: "Green Alternative is aiming to become one of the leading pressure groups in Georgia, using the expertise and experience of its members, through research and lobbying at all levels of society, from grassroots to government and indeed international. Solving environmental, social and economic problems via an integrated approach is the key for us."

Major ongoing campaign focuses for the group include the beleaguered Georgian energy sector - reducing fuel poverty, making the energy system more transparent, pushing for greater public participation, increasing the environmental sustainability of the system – and the monitoring of forestry within the country, which involves the World Bank forestry project implementation, and trying to develop the capacity of local groups to decrease illegal logging.

Reaching out to often isolated and uninformed local communities therefore lies at the heart of Green Alternative's work. Kochladze talks passionately about this part of the BTC campaign. "We have created political space to talk about the many and varied issues, supplied people with information and helped them to use the grievance mechanisms, as well as supporting those who have engaged in court actions to assert their democratic rights."

This engagement with communities and Georgian society more widely is a major long term commitment for Green Alternative, especially since the two publicly-owned development banks backing the project, the EBRD and the IFC, have set great store by the project's ability to provide sustainable benefits for citizens. Kochladze is sceptical. "There are still no clear indicators about these sustainable benefits. We have asked several times what is meant by this phrase, but if you look at the World Bank estimations for the oil and gas pipeline, the overall revenue from BTC and SCP together will be about 1 per cent of GDP. This clearly shows that Georgian revenues from this project are absolutely meaningless."

Civil society in Georgia is undoubtedly more developed than elsewhere in the Caucasus region although, admits Kochladze, the influence of NGOs on the public is limited, despite the fact that people do view NGOs positively. Environmental groups are part of this, with one caveat. "If something goes wrong in the environmental field, people feel that it is because of the failings of environmentalists," explains Kochladze. And this is not due to anti-NGO propaganda on the part of government authorities. "The NGO sector in Georgia is much more professional than the governmental sector, at least this was clearly the case before the recent revolution. People feel that NGOs could do more, but there are some limits to what NGOs can do."

Bearing in mind the political stakes which surround the multi-million BTC project, such limits are not difficult to guess at and Kochladze's continued scrutiny of the pipeline has led, among other things, to accusations of being an anti-Georgian agent. "On these occasions," she continues, "I have a rule that if the discussion starts to become personal - when you get accused of not being qualified to speak out, of not understanding the complexities of the poltical situation, or even of being too young to understand what is going on - I try to turn the conversation by saying that these kind of trivial arguments are a good indication that my and Green Alternative's points are valid."

As to the new political climate in Georgia, Kochladze remains pragmatic and prefers not to dwell on the mistakes of recent months since new president Mikheil Saakashvili's succession. "The new government has now committed to establishing the rule of law. But the most important and encouraging development is that in economic life, especially as far as the drafting of strategic plans and policies for different sectors is concerned, it will be necessary to have wider public debates, and not simply to prepare five year plans in a few days ."

Manana Kochladze and her colleagues at Green Alternative will draw on their experience and competences to make the most of this wider consultation opportunity proposed for Georgian society. Across all of their campaign work, this after all is a bread and butter issue for them. They are destined to go on playing a constructive role in the crucial period now facing Georgia's citizens, economy and environment.