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SAKHALIN FISHERMEN'S STRUGGLE FOR JUSTICE

In the autumn of 2003, Sakhalin Energy started dumping spoil in Aniva Bay from the construction of a massive jetty that will be used by oil and gas tankers at the Sakhalin II liquified natural gas plant. Aniva Bay is crucial to Sakhalin Island's vital fishing industry. According to the state fisheries regulatory body, Aniva Bay fish catches totalled 1478.3 tons in 2003. By 2005, however, this total had dropped dramatically to 449.5 tons.

Alexey Olegovich Tyndik represents Calypso, a fishing company in Sakhalin based at Aniva Bay. He has worked as a licensed lawyer since 2000 and has been a member of the Moscow regional Lawyers Chamber since 2002. Bankwatch talked to him about Sakhalin fishermen's struggle for justice with their big oil neighbour.

continued on page 2

CAN THE EIB DELIVER ON DEVELOPMENT?

Five years ago European Investment Bank (EIB) officials would have corrected anyone who attempted to compare the EIB to other multilateral development banks (MDBs). They would have strenuously disavowed the label of financial development institution and would have reiterated their 'investment' status. However, things have been changing in recent years. In a document entitled 'Towards a new Strategy for EIB Group', endorsed by EIB Governors during their Annual Meeting in June 2005, we see the following: "Clearly, the 'New Frontier' for the EIB lies outside the EU: this is where the Bank must now prove its worth as a development institution."

continued on page 3

CONTENTS:

- 1 Sakhalin fishermen's struggle for justice
- 2 Can the EIB deliver on development?
- 3 EU funds in central and eastern Europe: cohesion or collision?
- 4 Scraping the bottom of the end-of-pipe barrel
- 5 Two or three Americans: Wolfowitz and his Republican appointees
- 6 Time to wake up from South-East Europe's pipeline dreams
- 7 Social issues SOS from EBRD Environmental Department
- 8 EIB in the South. In whose interest?
- 9 We will not be moved
- 10 World Bank helping to tarnish jewels of Polish nature
- 11 Nukes and cronies in the Balkans
- 12 The memory hole

Sakhalin fishermen's struggle for justice

How would you describe the significance of the fishing industry for Sakhalin's economy?

Although I'm not a specialist in economic matters, I know that the fishing industry is important for Sakhalin's inhabitants because many of them – around 15 percent of the island's population – are actually employed in this industry, with many more islanders reliant on fishing for their own consumption. Oil and gas extraction also plays an important part but these industries require people with special education or involve work far from the city. Significantly, the foreign energy companies on Sakhalin such as Exxon or Shell prefer to employ foreign engineers rather than local engineers, even though the locals are much cheaper.

Wood and coal are almost obsolete on Sakhalin now. So the fisheries give permanent jobs to lots of people along the coast and in Yuzhno-Sakhalinsk's many small private processing factories. Fishing for self-subsistence is also very important, with islanders relying on fish as one of the main local meals throughout the long winters here.

Calypso, the company you represent, decided to submit a complaint to the EBRD's Independent Recourse Mechanism (IRM). Why did Calypso take this step?

Calypso, Korsakov Fish-Cannery (KFC) and Kontract are the three enterprises closest to the construction site of the Sakhalin II liquefied natural gas (LNG) plant. None of these companies received any proposals from Sakhalin Energy for the compensation of their losses after the location for the LNG plant was chosen.

In May 2004, with the help of FBK Ltd., one of the most respectable audit and consulting companies in Russia and a member of the international PKF group for several years, Calypso and KFC estimated their combined damage and losses at USD 10 536 000. The companies paid a high price for FBK's services in line with its reputation in the hope of securing fair and prompt compensation.

Two meetings with Sakhalin Energy in May and June of 2004 resulted in no decision, no promises, no terms.

In August 2004, Korsakov sea-port inspectors spotted a vessel called "Chernomoretz 10", the property of Sakhalin Energy's subcontractor, damaging the main seine just opposite the Mereya river mouth. The damage to the tackle was around 500 000 rubles (EUR 15,000). In response to the fishermen, Sakhalin Energy claimed that it had no idea about who was responsible for this damage.

By the beginning of 2005, the fishing companies concluded that the LNG plant and its facilities would be constructed regardless and that Sakhalin Energy had no intention of compensating for damage voluntarily. In April 2005 some EBRD officials had a meeting in Yuzhno-Sakhalinsk with representatives of the fishermen and local NGOs,

one of which was Sakhalin Environment Watch. That was the starting point for applying to the EBRD's IRM. The fishermen had lost all hope of resolving the issues with Sakhalin Energy in an amicable way. It's hard to imagine that back in the Netherlands or the UK Shell would simply ignore existing companies and not compensate them for such losses.

How are things shaping up with the IRM process so far?

Since the submission of the complaint in July last year, the IRM has been waiting for the Sakhalin II Phase 2 project to officially enter the EBRD project pipeline. On January 31, 2006 I was informed by the bank's Chief Compliance Officer that the EBRD's decision to consult publicly 'serves to lift the suspension on further processing' of the claim. So I would rather wait with my comments until the IRM process produces some concrete results. I know that all the fishermen hope that the EBRD will be able to start and participate in negotiations between them and Sakhalin Energy as they believe the EBRD should be able to help clarify the problem.

Why did the fishermen choose not to go to court if they thought their rights were violated?

Since we have decided to apply to the EBRD, it makes sense to wait for the procedure to develop until its logical conclusion. If we had turned first to the courts, the EBRD would definitely and justifiably have said, "We cannot replace national justice. It was your lawful right but since you have used it we cannot help anymore." Should the application to the EBRD appear to be fruitless, we shall then use all the other options available. Let's be clear here – this is a matter of survival.

Sakhalin Energy is run by Shell managers, so a lot of people assume that it must be easier to negotiate with a "western type" of company than with Russian businesses. Why was this not the case for the fishermen in Sakhalin?

Frankly, I have been astonished to discover that Sakhalin Energy's behaviour in this case has not followed "western type" standards but rather mimics the worst methods used by our domestic natural monopolies.

I cannot explain the reasons for this, I can only describe our regrettable experiences.

Following on from the episode with Calypso's damaged tackles, on November 19, 2004 Sakhalinrybvod received a letter from Sakhalin Energy signed by Anatoly Kholodin, its General Construction manager. In the letter, Sakhalin Energy offers Sakhalinrybvod, the main state body

regulating the fisheries on Sakhalin, to annihilate the rights of fishermen to work within the water area used by the Sakhalin Energy, stating: "As the licenses on water usage for the construction works under the project were given out legally, these licenses must be supported by a common prohibition for fishing within the specified water areas of the Company".

In subsequent correspondence, Sakhalin Energy explained this as a "request to resolve the situation between Sakhalin Energy and the fishermen". What it shows, however, is that Sakhalin Energy views the resolution of the situation to be achievable not through negotiations with the fishermen to estimate exact amounts of fair compensation but through a blunt administrative method that insists on prohibiting fishing in the area nearby.

After two further meetings in 2004, Sakhalin Energy's position still did not change in the slightest. The company saw "no reason for beginning negotiations with legal persons who, according to their point of view, suffer damages from the Sakhalin 2 project".

One of our key concerns is set out in a report carried out by IRM eligibility assessors: "No officer in the company had been designated as responsible for the handling of this dispute and that the absence of such an officer with clear responsibility for liaising with the Affected Group appears to have been a source of considerable frustration for the Affected Group" (Eligibility Assessment Report, 27). This report was presented to the company in September last year. Even after this there has been no word from Sakhalin Energy about appointing such a person.

"Western type" notions of corporate responsibility are sorely lacking when it comes to Sakhalin Energy's attitude towards Sakhalin's fishermen.

▣ **EBRD IRM procedures and guidelines:**
<http://www.ebrd.com/about/irm/index.htm>
Sakhalin Environment Watch campaign on Sakhalin II: <http://www.sakhalin.environment.ru/en/>



▣ **IF ONLY DEALING WITH SAKHALIN'S BIGGEST FISH WAS AS EASY AS THIS**

Can the EIB deliver on development?

continued from page 1

This change of emphasis is now being realised with the EIB recently being tasked to set up a new trust fund for Africa. A Memorandum of Understanding signed on February 9 this year by EU Commissioner Louis Michel and EIB President Philippe Maystadt establishes the EU-Africa Infrastructure Partnership as part of the EU Strategy for Africa, approved last December. It will provide EU financial support for trans-border infrastructure projects that link African countries and regions, with a focus on projects in the energy, water, transport and communications sectors.

The Trust fund will be able to blend European Commission grants with the EIB's own resources as well as loans from the EIB-managed Investment Facility; the latter focuses on financing the private sector and the commercially-managed public sector.

With EUR 60 million in European Commission grants, primarily for interest rate subsidies on an anticipated EUR 220-260 million of EIB lending, the fund in its first phase may not currently constitute a huge pot of money. However, with the second phase from 2008 onwards set to

potentially benefit from substantially increased European Commission grant resources, it is a significant first step in the shaping of the EIB to become the EU's development bank. In the build up to the signing, media reports portrayed Commissionaire Michel's initiative as an attempt to make EU development aid more visible and to counteract the fact that the EU "does not have the influence it deserves in the World Bank" (Reuters, February 1, 2006).

This shift in the perception of the EIB's role in development matters is also accompanied by ever growing EIB investments in the global south as well as new EIB offices popping up in various, especially African, countries. However, aside from all this buzz, is the EIB prepared to truly deliver on development?

In another part of the 2005 EIB strategy document it is stated that: "...[the EIB's] practice is influenced by its capital structure and the culture of its core business within the EU and Accession Countries. Thus there is inevitably a tendency to assess – and present – results primarily in terms of the volume of loans rather than the effectiveness of projects in achieving development goals." The document continues in another chapter: "The current ALA [Asia and Latin America] mandate has a specific 'mutual interest' objective. A narrow definition of eligibility under this objective leads the Bank to support mostly projects undertaken by large European companies."

These statements mirror NGO criticisms of the EIB's operations: the bank's notorious quantity over quality tendency and its client-driven philosophy.

Over the years the EIB has funded large projects outside the EU with major economic, environmental, social and political impacts. Many EIB projects in the South, notably those in the extractive industries sector, like the Chad-Cameroon and Bolivia-Brazil pipelines, or the Nam Thun 2 dam in Laos, have sparked controversies and debates over the EIB's contribution to environmental degradation and loss of biodiversity as well as social problems such as loss of livelihoods, increases in HIV/AIDS and the fostering of gender inequality.

The EIB differs from other MDBs because of its lack of clear environmental and social safeguards and procedures when investing outside of the EU. It also lacks adequate environmental, social and development in-house expertise to properly assess and monitor its projects. Furthermore, the EIB remains one of the least transparent and least accountable institutions within the EU, denying vital information to affected communities and the public (including whether the EIB is considering financing a project and key environmental and social impact assessments), and providing its clients with primary disclosure control when it comes to project information.

A development mandate for the EIB is currently being discussed by the European Commission and the EU member states. The process remains closed to the public with no open debate. It is nevertheless expected that the EIB will increase its presence drastically in Africa, Latin America and Asia. Whether or not the member states will condition this mandate on profound changes in the EIB or

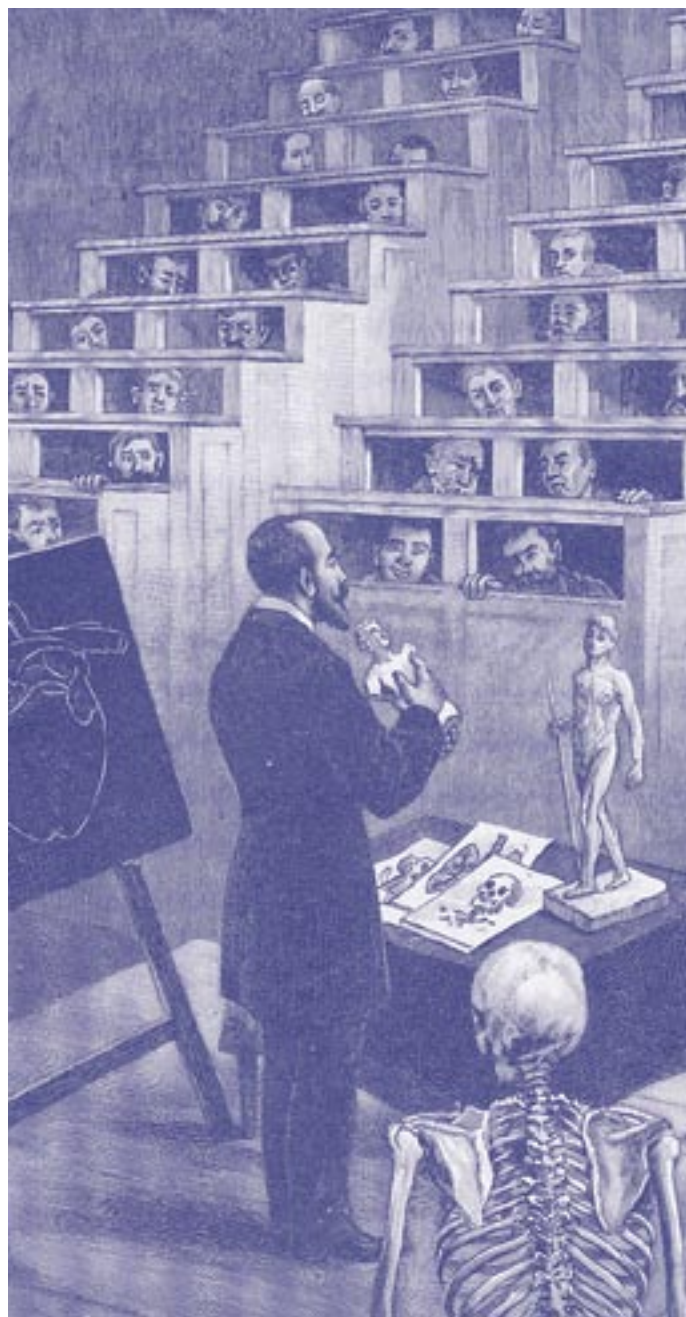
instead will give the EIB carte blanche to squander billions of development aid remains a distressingly open question.

▣ **"Towards a new strategy for the EIB Group" EIB strategy document:**

http://www.eib.eu.int/Attachments/strategies/strategy_cg2005_en.pdf

▣ **Bankwatch website on EIB:**

<http://www.bankwatch.org/project.shtml?w=147578>



▣ **"THERE ARE NOT SO MANY OF US IN THE ENVIRONMENTAL DEPT, SO OUTSIDE THE BOX THINKING IS A MUST!"**

EU funds in central and eastern Europe: cohesion or collision?

The European Union is about to pour EUR 157 billion in Structural and Cohesion Funds into its new members states and accession countries for the 2007-2013 period. But rather than improving the quality of people's lives and strengthening European cohesion there is a very real danger that this enormous pot of taxpayers' money is instead destined to fund outdated types of development which are not only environmentally harmful but also economically unjustifiable.

A new map produced by CEE Bankwatch Network and Friends of the Earth Europe highlights 22 of the already funded, planned and potential project blackspots in Central and Eastern Europe whose likely devastating impacts put them on a collision course with the EU's own policies and goals.

A digital, interactive version of the map will be available from March 8 on the Bankwatch website at: <http://www.bankwatch.org/billions>. To obtain printed copies of the map, contact: main@bankwatch.org



Scraping the bottom of the end-of-pipe barrel

At the end of last year, in an official letter to Bulgarian NGOs, the European Commission declared that the National Hazardous Waste Management Centre (NHWC) project “is not foreseen for receiving community funds under ISPA” (Instrument for Structural Policies for Pre-Accession) because of serious deficiencies in the project’s environmental impact assessment (EIA) report, in particular regarding the project’s potential impacts on human health.

While campaigners hailed this announcement as due recognition of their work on this project over the last few years, it remains clear that Bulgaria's problems in dealing with its hazardous waste and with its management of vital EU funds have yet to be adequately resolved. Lessons from the six year saga involving the NHWC project and the Bulgarian government's attempts to qualify it for European funding still do not appear to have been learned.

In January 2001, the Bulgarian Ministry of Environment and Water started a public awareness campaign in communities living near to four proposed sites for the NHWC project. The project involves the building of two hazardous waste incinerators, hazardous waste landfills and other facilities for treating industrial hazardous waste. The first

phase of the project was described as involving the construction of a 15 000 tons per year incinerator, an asbestos landfill, a hazardous waste landfill at the site and another one near Sofia, with other additional facilities. The project promoter, the Bulgarian Ministry of Environment and Water, costed the project at EUR 56 million and applied for ISPA funding as well as to the European Investment Bank (EIB).

According to initial research carried out at the time of the information campaign, the communities in the four regions had positive feelings about the NHWC project. Subsequently, however, two of the proposed sites were dropped because of protests, the third one was in a limestone area and the finally selected one was in the region of Radnevo, in one of Bulgaria's most polluted regions, already home to three thermal power plants and three open-pit coal mines.

In 2001 the European Commission refused to finance the project because of a bad public consultation process, the project's economic deficiencies and a strong campaign from local people in tandem with Bulgarian and international NGOs. In spring 2004, the Ministry of Environment and Water launched a new EIA process after

revising the project documentation. Once again local people and NGOs were quick to launch a campaign against mark II of the NHCW project which, though revised, was again unacceptable for the community upon which it was being thrust.

The public hearings concerning the EIA took place in October 2004 and were held far away from the affected villages. All the potentially affected residents who managed to attend were against the project. Nevertheless the EIA was approved by the Supreme Environmental Expert Council and the green light was given to the project. With the support of the Bulgarian members of CEE Bankwatch Network, Za Zemiata and CEIE, local people sent letters and statements to the Bulgarian authorities, the European Commission and the EIB, heavily criticising the project documentation. Several demonstrations took place but it was not enough for the ministry to withdraw the project.

The region is already heavily polluted. In 2005, in the vicinity of the proposed site, Za Zemiata conducted sampling of free-range chicken eggs to test for toxic chemicals. The analysis was carried out as part of global research conducted by the International POPs Elimination Network and the samples were processed in an independent laboratory in Czech Republic. The measured levels of dioxins in the eggs were found to be 20 times above EU limits. It was the second highest result to come from the 18 countries that participated in the research. After the publication of these results there was a conspicuous lack of action from any Bulgarian authority to make further tests or to take steps to protect people's health in the region. Instead, until the European Commission's recent notification that ISPA funding is not foreseen, it was full steam ahead for the NHCW project in the minds of officials in the Waste Department of the ministry.

Indeed, the officials seem to be blindly sticking to their guns, maintaining in a recent letter to Za Zemiata that: "... the application for funding through the ISPA programme is being processed in accordance with the received comments." Meanwhile, for the EIB, the project remains under appraisal as, "in general terms, the presence of EU funds is not a prerequisite for granting an EIB Loan."

Crucially missing from this whole messy affair is a simple proposal or assessment by the authorities of alternatives to incineration. A much more efficient and long term solution to restrict newly generated hazardous waste at source would be the enforcement of clean technologies in the production process, which would lead to the phasing out of toxic chemicals from products and processes, not to mention less production of waste overall. Instead the Ministry of Environment is happy to support industry's production of hazardous waste and is actually contributing to further pollution by insisting on incinerating it and dumping it dangerously close to communities.

Za Zemiata and CEIE will continue to both closely monitor developments in the project and support local community opposition by proposing alternative solutions.

▣ **European Commission letter on Bulgarian NHCW and ISPA financing:**
<http://bankwatch.ecn.cz/newsroom/documents.shtml?x=1550345>



▣ **"IT'S BIG, POLLUTING AND DANGEROUS, BUT I'M GOING TO LIKE IT YOU SAY?"**

TWO OR THREE AMERICANS: WOLFOWITZ AND HIS REPUBLICAN APPOINTEES

During a recent town hall meeting with staff at the World Bank, President Paul Wolfowitz used the opportunity to address increased media fanfare concerning disgruntled murmurings from staff about his recent appointments of key personnel to serve in his inner circle of advisors. Instead of acknowledging this mounting angst, however, Wolfowitz responded in a less than apologetic tone: “I will confess honestly that some of my initial reaction [to the media reports] was: what is all the fuss about two or three Americans coming into an organisation of 10,000 people?”

The fuss about two or three Americans arises from the manner in which Wolfowitz hand-picked fellow neo-conservatives with close ties to the White House to head senior positions at the Bank. Many fear a Republican coup within these powerful and influential positions, which has long-reaching implications for the ways in which the Bank establishes development financing priorities and how the relationships between Bank staff and senior management develop early in Wolfowitz’s tenure.

Among the appointees with strong Republican credentials are Kevin Kellems, previous Pentagon advisor and communications director for Vice-president Dick Cheney, as the Director of Strategy for the Bank’s External Affairs Department, and Robin Cleveland, a colleague of Wolfowitz at the US Office of Management and Budget whose responsibilities included oversight of military spending, as his top senior advisor. The appointment of Cleveland, once involved in the Boeing tanker ethics scandal, has raised a number of concerns centring on her reputed “polarising” personality.

Scepticism also surrounds Wolfowitz’s promotion in late January of Suzanne Rich Folsom, a Republican lawyer who served as counselor to previous Bank President James Wolfenson, to head the Department of Institutional Integrity which oversees allegations of corruption within the Bank. Within the first few weeks of Folsom’s appointment, a staff email complaint sent to the Department suggested that, “Bank rules and procedures were stretched in the appointment of close advisers to Paul Wolfowitz,” and also questioned the logic underpinning the excessive pay and open ended contracts awarded to Kellems and Cleveland.

Prior to this email, a letter sent from Staff Association Chair Alison Cave to Bank employees further highlighted staff uncertainty about Wolfowitz’s appointments: “Certain positions do not lend themselves to this type of recruitment and we would hope that such critical positions be filled in a transparent manner, through competitive selection and against clear terms of reference ... we are concerned that the positions were not filled in accordance with established recruitment procedures, which exemplify our commitment to good governance.”

Rich Folsom was also a topic of conversation during the town hall meeting when Wolfowitz sought to emphatically

debate allegations, first reported in the Financial Times, that Folsom urged the Department of Institutional Integrity to bypass operational procedures in accessing staff emails that might contain leaked information about ongoing investigations of corruption. There are interesting parallels here to recent US government shenanigans, as both World Bank Republicans and their White House counterparts attempt to rebut allegations of unethical surveillance, with the former waging its ‘war on corruption,’ and the latter its ‘war on terror.’

The town hall meeting followed the release of results from the biannual Bank-wide staff survey, in which a mere 19 percent of those surveyed believed that the World Bank Group had “changed for the better over the past twelve months” and only 48 percent had a “good understanding of the direction in which World Bank Group senior management is leading the institution.”

Though the ‘direction’ that Wolfowitz continually emphasises includes stamping out corruption and promoting good governance, his actions have left his rhetoric highly suspect. For instance, Wolfowitz has made it clear that Africa is his top development priority, telling participants at the 2005 Annual Meetings.

“Whatever you thought about Africa, think again.” But only weeks after suspending funds to Chad because of changes to its national oil revenue management act for the Chad-Cameroon pipeline – a Bank-funded project civil society lambasted all along because of ill-conceived mechanisms for demanding governmental accountability – in early February the Bank belatedly and embarrassingly released a report completed in October that investigates its involvement in a politically unstable region of the Democratic Republic of Congo. The Compliance Advisor/Ombudsman report, commissioned by Wolfowitz in July, questioned whether the Multilateral Investment Guarantee Agency, the political risk insurance arm of the Bank, adequately addressed the threat to local communities of increased violence from rebel groups by lending to mining operations in the region. Add to this the contradictions his most recent appointments present, and the ‘direction’ Wolfowitz is actually leading the Bank remains unclear.

And while the unilateral selection of top Bank officials is nothing new to Americans – the US does it every time a new president is chosen to head the Bank – these particular appointments and their lack of transparency confront Wolfowitz with serious challenges as he tries to solidify his legitimacy, and the legitimacy of those immediately around him, as the leaders of the world’s largest development agency.

David Hoffman, Bank Information Center

■ **Bank Information Center’s Wolfowitz Watch:**
http://www.bicusa.org/bicusa/issues/wolfowitz_watch/index.php

Time to wake up from South-East Europe's pipeline dreams

The recent crisis caused by Russian gas giant Gazprom increasing Ukraine's gas prices has sharpened debate in Europe about dependency on Russian fossil fuels and brought renewed calls for an increase in alternative energy sources. Combined with growing concern about rising global crude oil prices, this has dramatically underlined the need for the international financial institutions (IFIs) to prioritise investments in energy efficiency and renewable energy resources.

At a time when even George W. Bush, in this year's State of the Union address, has noted the need to break away from oil addiction, fossil fuels are remarkably still dominating energy infrastructure projects in South East Europe (SEE). The so-called Athens process for establishing the Energy Community of South-East Europe looks set to further this trend, aiming at developing the utilisation of local fossil fuels and the transit of fossil fuels from the Caspian, North Africa and the Middle East. It is mainly backed by the European Commission and the Balkan Stability Pact, and supported by the EBRD, EIB and World Bank among others. The only 'alternative' pursued with any vigour by the region's governments so far has been the wrong one – nuclear, with its safety and waste problems, and its astronomical costs that no amount of concerted lobbying power can wish away.

The most high-profile energy projects in SEE are oil pipelines. Their stated objective is to transport Caspian oil to western markets, bypassing the congested and delay-prone Turkish straits. The pipelines are promoted as decreasing the likelihood of accidents and oil spills in the straits, but are popular among SEE governments chiefly because of the transit fees that can be collected from users. They are also claimed to increase regional co-operation, partnership and stability – without doubt a worthy aim, but existing pipelines have failed to ensure satisfactory co-operation between Russia and neighbours such as Ukraine, Georgia and Chechnya.

The USD 1.2 billion Burgas-Vlore pipeline, often known as AMBO (after the US-registered Albania-Macedonia-Bulgaria Oil corporation) is currently the only SEE pipeline for which funding appears to have been secured. In December 2004 it was announced that USD 900 million of financing would come from the Overseas Private Investment Corporation (the US development agency), the Eximbank and Credit Suisse First Boston, among others. The pipeline terminal at Vlore is opposed by a coalition of environmentalists, academics and local business people who claim that the terminal would be a death sentence for Vlore, Albania's most beautiful seaside resort, and that it violates even the Albanian government's intentions to develop Vlore's tourist potential.

The AMBO pipeline is in competition with the shorter USD 700 million Russian-backed which, after several

years of uncertainty, was resurrected in April 2005 when a Memorandum of Understanding was signed between the Bulgarian, Greek and Russian governments. It is not known whether any funding has been secured for this project yet. The Burgas-Alexandroupolis pipeline has the advantage of passing through only two states, but the disadvantage of carrying oil in tankers in the Aegean Sea, which contains numerous submerged rocks and island populations dependent on tourism and fishing.

A third oil pipeline is the Constanta-Pancevo-Omisalj-Trieste Pan-European oil pipeline. This would take oil from the Romanian coast to refineries in Serbia and Croatia and to Trieste, connecting with the existing Trans-Alpine pipeline and the Italian pipeline network. The total investment is estimated at USD 2.4 billion and could potentially be part-financed by the EBRD and MIGA.

Other oil pipelines are also being considered to carry Caspian oil westwards: an extension of Ukraine's Odessa-Brody pipeline to Plock and Gdansk in Poland is under consideration, particularly as a plan to link up Odessa with the Croatian port of Omisalj (the Druzhba Adria pipeline) appears to have been shelved after its environmental impact assessment was rejected for the third time. In Turkey, besides the newly built Baku-Tbilisi-Ceyhan pipeline, three other pipelines are being considered.

Gas pipelines are also planned. The EUR 4.5 billion Nabucco pipeline from Turkey to Austria, for which financing is being sought from the EBRD, EIB and IFC, would carry gas from the Caspian and Middle East to European markets. A Turkey-Greece-(Italy) pipeline is also planned, and an additional Greece-Slovenia pipeline is at an early stage of planning. Although gas is preferable to other fossil fuels in terms of efficiency and emissions, its rising price raises questions about the wisdom of investing such massive sums into new gas infrastructure.

It is unclear how many of these pipelines are actually needed or will be built, but since each project's feasibility is examined separately there is a high risk that more pipelines will be built than are actually necessary, and that they would serve to encourage an increase in fossil fuel transportation, rather than just satisfying existing demand. Duplicated pipelines would come at great cost to taxpayers and to the development of energy efficiency and renewable energy.

Expenditure on large fossil fuel and nuclear infrastructure tends to crowd out investment into demand-side energy efficiency and renewables because it removes the incentive to save energy and diversify sources. Unfortunately here the IFIs are blindfolding themselves and lacking a clear-sighted regional perspective. In the recent debates about its new energy policy, the EBRD has steadfastly refused to countenance the idea of deploying a Strategic Impact Assessment of its energy portfolio that would

enable an analysis of different scenarios for energy sector development in SEE and elsewhere in central and eastern Europe. The perceived panacea of pipelines, however, perpetuates and encourages dependence on increasingly expensive oil.

On the other hand, all of the SEE countries are widely reckoned to have significant potential for energy efficiency and renewables, which could lead to real energy independence. The Romanian government, for example, estimates that energy efficiency could lead to a 40 percent reduction in primary energy intensity by 2015. In Bosnia Herzegovina, outside of Sarajevo some district heating systems suffer from energy losses above 60 percent. It would be logical to address energy wastage before embarking on new generation capacity, but progress in this area has been slow, with some SEE governments having strategies but little action, and others not even having a national energy strategy (for example Bosnia Herzegovina and Macedonia).

On renewables specifically, several SEE countries have great potential. According to the EBRD Bulgaria is one of the top countries identified for wind energy development, while Croatia is identified as having significant wind and biomass potential. However, in some other countries, there is not even enough reliable data to estimate undoubted potential (e.g. wind in Bosnia and Herzegovina and Macedonia). Several other barriers to further the development

of renewables exist, including legal barriers and the outdated, top-down, 'big is beautiful' thinking of many SEE decision-makers.

For the IFIs there is the inconvenience and high transaction costs of administering the small loans required very often for these projects, not to mention the lower returns for the IFIs. Mechanisms for dealing with this by bundling loans could be developed, but the question is whether the will exists. As it grapples with its overall strategy for the next five years, the EBRD for one has indicated that it wants to focus its attention on small and medium-sized enterprises and not on big projects. However the short-term interests of IFIs and governments need to be reconciled with the longer-term advantages that smaller loans, energy efficiency and renewable energy bring for SEE citizens and the environment.

Rising oil and gas prices, Russia's use of gas as a political weapon, SEE's energy inefficiency and potential for renewable energy all point clearly to the need for a rapid reorientation of energy investments towards energy efficiency and renewables. Loans for new large-scale fossil fuel infrastructure and generation capacity cannot be justified. If SEE governments and IFIs do not consider energy efficiency and renewables worth prioritising now, it begs the question of how much of an energy crisis will we need to have before real action is taken.

Social issues SOS from EBRD Environmental Department

Not before time, the EBRD's Environmental Department is seeking a consultant to provide expert advice on international labour standards and other human rights issues. Labour issues are assessed as part of any EBRD project's due diligence procedures, though as recent loans to the Baku-Tbilisi-Ceyhan pipeline and Kaufland supermarkets in Poland, as well as a troubled investment in Serbia's Fresh & Co juice manufacturer (see Bankwatch Mails passim) have shown, the EBRD's ability to adequately screen for project promoters' abuses of labour standards is in serious doubt.

Whether a suitable candidate will be found in time to have a telling impact on the EBRD's final weighing of the Sakhalin II project is unclear (the procurement notice was posted on the EBRD website on 21 February 2006). What is clear, however, is that with the Sakhalin II public consultations just around the corner, any new social issues consultant will have their work cut out to deal with the increasing revelations concerning Sakhalin Energy's sharp practices.

Ahead of the formal public consultations in March, a bank delegation headed by the EBRD's General Secretary Horst Reichenbach recently listened to a litany of testimonies from local people in Korsakov slamming the oil

company's negligence and its failures to live up to socially responsible 'good intentions'.

At this February 1 meeting, Elena Losinskaya, a member of the Korsakov-based NGO Knowledge Is Strength and a staff member of the Korsakov Customs Department, described Sakhalin Energy's operational policies as "barbaric and opaque" as she sketched a harrowing scene of what Sakhalin II is bringing to her community:

"The office in Korsakov that handles worker documentation is required by law to work with the Sakhalin II liquefied natural gas plant. The office registers all visiting workers. This is a big job, which has fallen on the office's staff, the capacity of which was meant to serve the small city of Korsakov. More than 6,000 people work at the plant, most of them visiting workers: there's a high turnover, workers constantly come and go. Because of this, the staff at the worker documentation office is unable to complete the work that it needs to do for the local residents. Because of long lines, people start arriving at 4 or 5 o'clock in the morning to stand in line. An interesting ethical aspect is that places in line are already being bought and sold. This evokes irritation and aggression in people. The office staff has to do worker documentation checks at the LNG plant, this is a duty regulations require from them, but the staff

is unable to gain entrance to the plant. In light of all this, the company talks about the transparency of its policies and its benevolence.

As a result of the fact that the worker documentation office can't handle the registration of visiting workers, a large illegal workforce has accumulated in the city. Subcontractors who bring in workers from other regions do not take responsibility for making sure that those visitors go back. And many can't return (those who have been fired without any wages paid), or don't want to return. There are more and more of these people every year in our small city. This is a cheap, illegal workforce that local businesses are eager to hire, so local residents are finding it harder and harder to get work. These illegal migrants don't pay taxes to support

the local budget. They create medical problems, since they don't get regular health care and carry diseases."

Some observers, including at the EBRD, have been insistent that these are boom times for Sakhalin Island, where everyone will get some kind of share of the natural resources pie. You don't need social issues experts to realise that this kind of analysis is abysmally flawed.

■ **EBRD procurement notice for advisory services to EBRD's Environmental Department on social issues:** <http://www.ebrd.com/oppo/procure/opps/consult/17616.htm>

■ **Bankwatch campaign on EBRD safeguard policies:** <http://www.bankwatch.org/project.shtml?s=759644>

EIB in the South. In whose interest?

This question has been raised by four NGOs – Campagna per la Riforma della Banca Mondiale, CEE Bankwatch Network, Friends of the Earth International and WEED – in a new report launched in the European Parliament in the company of MEPs Gabriele Zimmer and Luisa Morgantini in early February.

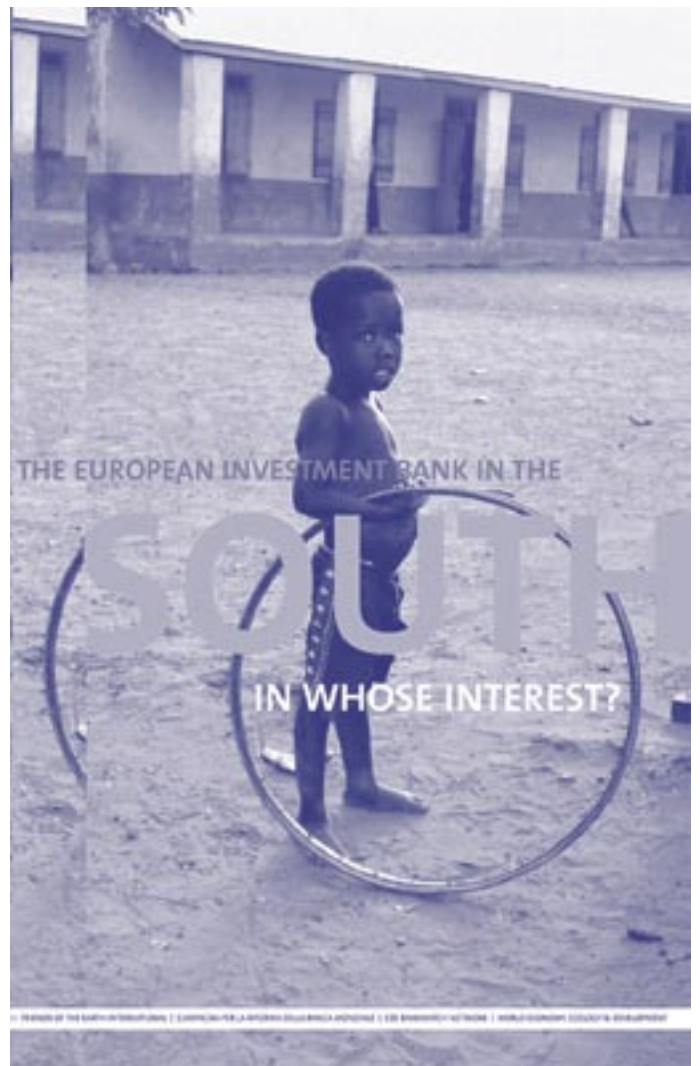
Authored by Jaroslava Colajacomo on behalf of the four sponsoring organizations, "European Investment Bank in the South. In whose interest?" evaluates the environmental, social and development consequences of the EIB's operations in Africa, Latin America and Asia and presents eight case studies of controversial EIB financed projects in Zambia, Chad, Cameroon, Brazil, Mexico, Philippines, Indonesia and Laos in areas such as mining, oil, the pulp industry, water privatisation and large hydro dams.

The report argues that the EIB appears to be in practice a fundamentally demand-driven institution which responds to the needs of its clients, and readily finances projects where economic returns are high and guaranteed, instead of prioritising lending for poverty alleviation or environmental protection. The EIB has, for example, rarely subsidised environmental projects or invested in renewable energy. Furthermore, the report's case studies illustrate how EIB financed projects have often been damaging to communities and the environment.

The report concludes that in its current form the EIB is unable to truly deliver on development. A dramatic shake up of the EIB is recommended to ensure improvement in its choice of projects, its relations with affected people, its accountability to the European Union, its procedures and processes, and its monitoring of projects and policies regarding lending in the global south. The EIB must take full responsibility for the consequences of its lending and it must ensure that the projects it finances deliver benefits to people and the environment.

To receive a copy of the report, contact:
main@bankwatch.org

■ **Online version of "EIB in the South. In whose interest?":**http://www.bankwatch.org/documents/eib_in_south_3.pdf



WE WILL NOT BE MOVED

The media storm in January concerning Russian state allegations of UK spies funding Russian NGOs has been widely regarded as a Cold War-esque stratagem to garner public support in Russia for tougher NGO laws introduced by Vladimir Putin in January giving the authorities wide-ranging powers to monitor the activities and finances of non-governmental organisations. NGOs are well used to the tag 'traitor of the homeland' and other such emotional terms of abuse – as environmental journalist and campaigner George Monbiot describes it: "Tell people something they know already, and they will thank you for it. Tell them something new, and they will hate you for it." But name-calling apart (Czech president Vaclav Klaus' attempt last summer to equate 'NGO-ism' with communism being one of the most absurd), how are actual NGO-state relationships looking currently across central and eastern Europe?

The situation in Uzbekistan continues to be deplorable. According to data from the Uzbek Ministry of Justice, in December 2001 there were 5 500 registered NGOs in the country. By December 2005 there were only 200 NGOs remaining, half of which are loyal to the Karimov government. The clampdown on the Uzbek NGO sector stems of course from the Velvet revolution in Georgia.

Fearing a knock-on effect, in February 2004 the Cabinet of Ministry of Uzbekistan approved decree #56 "On measures of improvement of registration of the financial transfers, grants and humanitarian aid from international governmental and non-governmental organisations". From that moment on grant receivers were obliged to open special accounts in two banks only: National Bank of External Economic Activities in Republic Uzbekistan and in Bank "Aska". Special committees sprung up to monitor how the money was being spent. If there was the slightest hint that a donor was not trustworthy enough the money was sent back. Having thus restricted the access of NGOs to international help the government began to develop a pliable civil society.

Just before the new year, the Uzbek parliament made changes to the Criminal Codes and the Administrative Responsibility Codes designed to toughen punishment for NGOs and Journalists. Changes were made to the articles like 'Crime against freedom, honour and dignity', 'Crime against peace and safety', 'Crime against ruling order'. All punishments have grown tenfold. From now on people who try to hold a meeting that is not agreed with the authorities can be fined USD 3000.

According to the Tashkent based journalist Sergei Ezhkov (writing in Central Asia News, February 2, 2006): "The reasons for this increased pressure is not only because of 'colourful revolutions' and not only because of the Andijan revolt. Now the administration feels that they can do anything, so they increased punishment for any action which is not coordinated with it."

Post 'revolutions', how are things shaping up for NGOs in Ukraine and Georgia? In Ukraine, where all eyes are

on the forthcoming elections, there is more freedom for NGOs with registration theoretically possible in three days though this is not completely clear yet. Moreover, Ukrainian officials regularly run public hearings on various political decisions, but there is no culture and understanding between Ukrainian bureaucrats as to why they do it. There is still a long way to go before public opinion is properly incorporated into decision-making.

In Georgia, where the Saakashvili administration is aggressively driving through lots of privatisation deals, there is arguably less public participation and scrutiny permitted than was the case under the Shevardnadze administration. Changes in national environmental impact assessment laws last summer mean that permits for projects have to be decided on within a month, which effectively means that there is no space to refuse suspect projects. Three small waste incinerators in Tbilisi and upgrades to the airport – so-called 'national interest' projects – have been pushed through recently.

In Kyrgyzstan, while there were cases where NGOs were legally closed down because of financial scandals during the Akaev government era, it is now strictly prohibited for the authorities to interfere in the activities of NGOs. Meanwhile in Kazakhstan, the focus of the majority of environmental NGOs is primarily on neutral forms of work, such as environmental education and awareness. It is extremely difficult for the public to participate in any decision-making processes, from discussing legislative developments to debating the construction of specific projects that pose environmental risks.

Moreover, in the increasingly complicated situation, when environmental protection issues have taken on an extremely politicised character, many environmental organisations prefer not to exacerbate relations with the authorities and companies. For these and many other reasons, there are very few environmental organisations initiating judicial processes to protect the environment and the rights of Kazakhstan's citizens. The situation is complicated further by the weakness of freedom of speech in Kazakhstan: the closure of newspapers, television and radio stations, and prosecution of the media and journalists. Active efforts are underway to place the activities of the country's environmental NGOs, and the few sources of independent environmental information, under the state's control.

In Azerbaijan, the situation for independent NGOs remains acute, with bad relationships with the government and regular smear campaigns in the mass media. Independent NGOs have problems when it comes to registration. But the NGOs created by the government do not have this problem. Indeed a number of ministers and MPs in Azerbaijan have their own NGOs and they are used not only for creating 'transparency' in various fields but also as a source of business. One member of parliament has five registered NGOs which take part in different projects, particularly BP projects. When necessary these NGOs can create 'transparency' in projects implemented in Azerbaijan and funded by the IFIs.

WORLD BANK HELPING TO TARNISH JEWELS OF POLISH NATURE

Poland's roads are notoriously sub-standard and dangerous. Over the last fifteen years, successive governments have all failed to fulfil Poles' expectations of an adequate and safe road system. Polish membership of the European Union has thus far proved to be not entirely comfortable for road promoters and authorities who have underestimated the importance of the EU's environmental legislation not to mention the determination of non-governmental ecological organisations to preserve some of Poland's natural riches and splendour.

The history of the Via Baltica expressway's construction in north-east Poland is an unfortunate example of the backwardness of regional authorities and, most recently, of cynical attempts by local politicians to build up political capital ahead of regional elections. At the same time the community who suffer the most is being fed false explanations as to why so many people die on the road every year. This is happening with the silent participation of the international financial institutions, and in particular the World Bank.

Via Baltica is the name of the Pan-European Transport Corridor from Helsinki to Warsaw, and the expressway is a priority for realising the vision of a seamless transportation network stretching across Europe from Portugal to Finland via Poland, the so-called Trans-European Network for Transportation. Officially the construction of the road has not even started yet but in reality the corridor does exist. Every day thousands of heavy trucks journey from the Baltic states through Bialystok and Warsaw, at the same time passing through the centres of small towns along road 8. However, this route happens to cut through five great sites of European importance for the conservation of birds and habitats: Biebrza Wetlands, Narew Marches, Augustowska Primeval Forest, Knyszynska Primeval Forest and Wigry National Park. Often referred to as the "green lungs of Poland", this natural paradise could soon be wheezing its last.

In the mid-nineties, Via Baltica was the subject of discussion undertaken by the Baltic state governments. As a result, three alternatives were proposed, two of which came to be seen as the most realistic: the Bialystok (road 8) and Lomza (road 61) options. In 2001 the Polish government decided on the Bialystok variant without any comprehensive assessment of the environmental, social and economic indicators. A short time after, road 61 was closed to traffic, with the constantly increasing heavy traffic being directed only to road 8. CEE Bankwatch Network, WWF Poland and Polish Society for Birds Protection started to campaign for the Via Baltica route to go via Lomza, an option not only shorter than the Bialystok variant but one which crucially bypasses the region's great natural sites.

From the outset the NGOs demanded the preparation of a Strategic Environmental Assessment (SEA) that would



▣ HITCH-HIKING ON ROAD 61

take into account the socio-economic factors attached to the differing routes. In December 2003, as a result of a report by the NGOs sent to the Bern Convention Secretariat, the Bern Committee recommended that the Polish government should carry out an SEA – including economic, social and environmental aspects – before deciding on the Via Baltica route. Positive progress thus seemed possible when the Polish authorities agreed to carry out the SEA and invited NGOs to participate in the SEA tender committee. However, subsequent events showed that political intentions can be above the law.

Road 8 is being upgraded step-by-step to the standard of international transit corridor, while road 61 was left alone. Yet in 2005, while the SEA committee was preparing a tender, Mr Kurylczyk, the deputy transport minister publicly announced that Via Baltica would be running through Bialystok because a road of such importance should not avoid the capital of the Podlasie region. Needless to say, regional politicians lobbied hard for this. According to Kurylczyk, any SEA would now contain information on how to protect the wellbeing of the environment rather than indicate the optimal route for the corridor. As a result the NGOs submitted a complaint to the European Commission requesting an investigation into the compliance of the construction works with EU legislation.

Further steps are being undertaken to upgrade road 8 to expressway standard. In autumn 2005, just before the national parliamentary elections, the Head of Podlasie Region issued three construction permits for road upgrading and bypasses of the towns, a move welcomed by local residents. Yet these investments are situated within proposed Natura 2000 network sites. NGOs complained to the Ministry of Environment which had no choice other than to cancel the decisions which were in violation of the law.

After the Ministry's decision, local politicians accused green NGOs (the term "eco terrorism" has been liberally peppered around) of blocking the investments for the road investments and, in turn, threatening the Podlasie region's economic development and the safety of people living along road 8. It is not surprising that the local community has backed the expected investments for road 8. Every month they block the road and demand bypasses and the upgrading of the road. It is difficult to live in towns whose historical centres serve as a transit corridor. They have been repeatedly assured by local politicians that the problem of heavy traffic in their towns – which has after all been aggravated by the decision to close road 61 in 2001 – will be solved soon.

However, nobody pays attention to the years of delay in the rehabilitation of the infrastructure, the political decisions to direct all traffic through Bialystok and the legal lapses deliberately committed by the regional authority. These are the real reasons for people suffering along road 8. And when it comes to Podlasie's regional development, what about the fact that the planned route will destroy the region's greatest asset, taking away the main reason tourists are attracted to Poland's wild north east?

The World Bank's role in Via Baltica

The section of the road 8 financed by the World Bank under the Road II Project from 1998 cuts through the crucial five kilometres wide Augustowska Primeval Forest spit connecting it to the Biebrza Wetlands. The spit is vital for lynxes, wolves, mooses, otters and beaver, species which are protected by the European Habitat Directive and listed on the IUCN Red List of Threatened Animals. The Augustowska Forest has additionally been designated by Birdlife as an Important Bird Area.

This World Bank subproject includes increasing the standard of the road to conform with international transit road standards, widening and land clearing along the section. In May 2004, just after work started, NGOs informed the World Bank about the environmental importance of the area and called for a halt in financing for the section until an SEA is carried out for Via Baltica. The World Bank did not believe NGOs, claiming that the section runs outside any protected areas mentioned by the NGOs and that upgrading of the section had nothing to do with the European transport corridor aims.

As a result of the World Bank's blindness, the EIA for the investment was substandard and did not contain basic,



important environmental information. As a result the project failed to include any mitigation measures for mammals. Only two weeks after the opening of the upgraded section there were two serious car accidents involving mooses crossing the road.

Currently the World Bank is also involved in upgrading a neighbouring section from Kolnica to Augustow but it has now admitted that it did not recognise the importance of the Augustowska Forest; this oversight meant that the subproject did not trigger the bank's Natural Habitats and Forest policies. The World Bank has also admitted that indeed the EIA should have included specific observations and recommendations regarding protected species of flora and fauna. Indeed the most recent NGO intervention has led to World Bank commitments to work in order to recognise what mitigation actions might be necessary and could be undertaken in order to preserve natural habitats and improve traffic safety.

Podlasie's priceless natural heritage deserves a lot more attention and respect from the IFIs. international funders should open their eyes to the road promoters' activities on road 8 and their false promises that the Via Baltica is very unlikely to take shape in the short-medium term. After all, the Via Baltica exists now. There is also an urgent need to open road 61 for transit traffic after the rehabilitation of some of its sections; this would relieve road 8 and benefit the people living in the towns along this road. The World Bank is currently financing three road rehabilitation projects in Poland. Its involvement in upgrading road 61 to the same standard as road 8, so that it really serves as transit variant, would be very welcome. Such involvement from the World Bank could mitigate environmental losses and improve living standards until the bypasses are built and a strategic decision on the Via Baltica route is finally undertaken. It could also help to stem the Polish road lobby's increasing efforts to water down environmental protection regulations.

► **Bankwatch campaign on Polish Via Baltica:**
<http://www.bankwatch.org/project.shtml?s=153973>

Nukes and cronies in the Balkans

Earlier this month Bulgarian Bankwatchers listened to president of the EBRD Jean Lemierre state categorically that the EBRD will not be getting involved in the financing of the proposed Belene nuclear power plant. But is the EBRD's support for Bulgaria's efforts to become a regional "energy hub" in fact providing indirect support for the nuclear industry that will lead to a significant chunk of its internal costs being covered by public funds?

The new EBRD Country Strategy for Bulgaria describes that: "The Bank will continue to support the energy sector, investing with the private sector in both generation and distribution, and further developing Bulgaria's role as a regional energy hub enhancing integration in south east Europe." The very concept of the energy hub cannot be realised without Belene's nuclear energy.

But a current EUR 40 million sovereign-guaranteed loan from the EBRD appears already to be providing ample justification for Belene's existence. The Bulgarian media is referring to the construction of the EBRD co-financed high-voltage gridline between Macedonia and Bulgaria as being part of a new Bulgaria-Italy energy corridor. With Italy already looking for options to import cheap (and, in some cases, dirty) electricity from Balkan countries, it is very likely that this gridline will be used not so much to enhance integration in south east Europe as to secure western energy supplies. Belene's role in this, critics of the nuclear power plant proposed for the Bulgarian-Romanian border region fear, could be a fait accompli despite the psychopathic planning attached to the project. A new nuclear power plant in a dangerously seismic region potentially using outmoded Russian technology, anyone?!

The memory hole

"The health threat posed by smoking is enormous, but so is the potential for reducing smoking related mortality with cost-effective policies. Modest action could ensure substantial health gains in the twenty-first century."

Death and Taxes: The Economics of Tobacco Control, International Monetary Fund, December 2004, <http://www.imf.org/external/pubs/ft/health/eng/hdwi/>

On January 30 this year, on the eve of Serbia's national 'No smoking day' and just a few days after the coming into power of a new Serbian law on cigarettes and smoking in public places, the head of the IMF office in Serbia, Herald Hirschoffer, traveled 60 kilometres from Belgrade to the municipality of Indjija.

The purpose of this visit was to give backing to and to promote even greater efficiency, productivity and profitability at one of Indjija's most well-known enterprises – the cigarette factory where the top Serbian cigarette brand "Fast" is produced.

Initially in 2001 only 2000-3000 cigarettes per hour were being produced at the factory. Five 'successful' years later, the conglomerate Inway has decided to increase its capacities by adding a further two production lines, with the target of 6000 cigarettes per hour now realisable.

Every day in Serbia smokers spend more than EUR 3.5 million on more than 70 million cigarettes. As in other transition states in the former Yugoslavia, such spending inevitably has major impacts on health and social security sectors which are already straining to measure up to IFI-prescribed budget tightening.



▲ THE IFIs CAN SERIOUSLY DAMAGE YOUR HEALTH

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