

# BANKWATCH MAIL

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## Planes, loans and automobiles

**Amidst all the fanfare over the outcome of the Spring European Council and the compromise deal hammered out on EU energy and climate policy, it went largely unnoticed that EU leaders ignored the transport sector, which accounts for 30 percent of EU emissions. Another vital ingredient in the EU's transport mix has also been escaping attention: the role of the European Investment Bank, which dished out soft loans for transport projects totalling EUR 112 billion for the period 1996-2005.**

## Kyrgyzstan's government rejects HIPC shackles thanks to public pressure

**Western media rumours that the IMF is becoming toothless ignore the institution's continuing efforts to foist deeply unpopular schemes in remote, barely covered parts of the world – in countries like Kyrgyzstan, for instance.**

The date of 20 February 2007 will be marked in the modern history of Kyrgyzstan as a day of victory. On that day the national government sat to discuss whether the country should join the HIPC (Heavily Indebted Poor Countries) initiative. Also present were numerous observers from the HIPC sponsors, the World Bank and the IMF.

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Yet as new Bankwatch research has been finding out, these massive sums have not helped to deliver the EU White Paper on Transport's goals of modal shift and decoupling of transport from growth, nor have they contributed to the halting of climate change – rather the opposite.

Involving thorough analysis of the EIB's transport sector portfolio – which accounts for roughly one third of the EIB's lending portfolio as a whole – and bringing together an array of case studies of individual EIB-backed transport projects, our research has been compiled into a new report entitled "Lost in transportation: the EIB's bias towards road and air transport".

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# Editorial: Double standards for how much longer?

The beginning of the year saw the death of Lord Kelvedon, better known as Margaret Thatcher's former Transport Minister Paul Channon, who once described himself as "the biggest road and bridge builder since Julius Caesar" and who was a key figure in the UK's heavily criticised – though much imitated – rail privatisation blunders of the early 1990s.

But Channon's enthusiasm for the building of new roads did have its limits. His obituary in the *Daily Telegraph* informed that, after retiring as a member of the UK's elected parliamentary chamber, "Channon and his wife opened their gardens to fund a campaign against the proposed M12 motorway, which looked like running uncomfortably close to Kelvedon Hall."

Major new road-build is now well and truly underway in central and eastern Europe (CEE) with apparently no end in sight to the long-standing collision between climate rhetoric and public funding pumping more emissions into the atmosphere. New Bankwatch and Friends of the Earth Europe research has discovered that 53 percent of the EU's 177 billion euros of structural and cohesion funds in the new member states for the 2007-2013 period has been provisionally earmarked for roads and motorways. What are the odds, then, that similarly blatant NIMBY-ism from national and international decision-makers will not inevitably rear its hypocritical head?

The Polish government's gung-ho approach to nature values and national opinion concerning the routing of a by-



▣ "EMISSIONS NEED TO COME DOWN. CONTINUE TO SUBSIDISE FOSSIL FUELS AND THE CAR INDUSTRY? WELL, WHY NOT?"

pass through the glorious Rospuda Valley is an early and troubling sign of what may be to come across CEE.

This issue's article on the controversial Polish case points out the robust approach that the European Commission has taken in defence of a site of Polish and EU-wide value, a site that is also part of the Natura 2000 network. It's an approach that tends not to feature in the mindset of the IFIs when they deliberate over controversial road projects in CEE – only last year, the president of one of these institutions admitted to Bankwatch that he didn't know what Natura 2000 is!

But what some refuseniks previously dismissed as arcane, green mumbo-jumbo is now streaming ever more forcibly into mainstream debate. And in energy issues, the crescendo is becoming irresistible when it comes to long-standing taxpayer support for dirty energy.

To cite just two recent high level knuckle-raps of the status quo:

- The Stern Review called direct and indirect fossil fuel subsidies “the most obvious” of the “many policies [that] distort the market in favour of existing fossil fuels technologies”.
- At the end of February the EU High Level Group on Competitiveness, Energy and the Environment released a report including a key recommendation that “public support frameworks should move from protecting the past to investing in the future.” The report went on to argue that “Member States should consider a comprehensive reform of subsidies insofar as a number of existing subsidy schemes may not be justifiable, in particular environmentally harmful subsidies, in which case they should be phased out.”

Yet behind all the frameworks and the placatory talk of high level conferences being led by the IFIs, how are they dishing up their bread and butter – their projects?

Recent analysis from the Bank Information Center has found that in 2006 the IFC's investments in the extractive industries increased by a hot 60 percent, with the oil industry by far the biggest benefactor landing a share of the IFC's 2006 extractives portfolio that amounted to 52 percent.

The EBRD continues to talk the good talk on the back of the roll out of its 2006 Sustainable Energy Initiative. However, outrageous projects continue to slip through – or, critics says, be a part of – the net, none more so than one apparently secured by EBRD president Jean Lemierre while on a trip to India in January.

Press reports mentioned that, according to Lemierre, the EBRD has invited top Indian energy firms to develop coal mines and gas fields in eastern Europe and Russia. It is to be hoped that Lemierre isn't scheduling any upcoming trips to China.

Bankwatch staff members are often quizzed by friends or family, what is the difference, then, between these publicly funded development banks you watch and normal banks that we find on the high street? When it comes to project finance, one standard response remains: the high street banks live by the market, so their often wanton and contradictory activities, however repulsive, are understandable; the public banks rely on taxpayers' money and are mandated on strict lending guidelines, so their often wanton and contradictory activities are incomprehensible and, yes, doubly repulsive.

Long may this be discontinued.

## KYRGYZSTAN'S GOVERNMENT REJECTS HIPC SHACKLES THANKS TO PUBLIC PRESSURE

The whole country held its breath in expectation. President Bakiev attended the cabinet session and his address left no doubts: ministers should put aside political bickering and seek other ways to solve Kyrgyzstan's debt problem.

Later on the same day Kurmanbek Bakiev addressed the nation, commenting: “A special six-member commission considered this issue and decided that this initiative would have more negative than positive results. I think their arguments were correct. The government is a collective body, therefore it would be right to have not a personal but a common governmental decision.”

The decision not to enter HIPC was announced after 17 out of 18 members of the cabinet had voted against the controversial HIPC initiative.

Civil society groups all had reasons to celebrate the announcement – they have been through the year long campaign to convince the Kyrgyz people that HIPC was not going to resolve either the central Asian country's debt problems or fight poverty. The international financial institutions (IFIs) and their local offices, on the contrary, had been making a great deal of fuss over HIPC, using lots of propaganda efforts in favour of HIPC acceptance.

The coordinated struggle against HIPC involved unprecedented mobilisation and a high level of understanding of complex economic issues. It also demonstrated the growing integration of Kyrgyz civil groups into the global struggle against debt burden, often used by the IFIs as political leverage. It should also be noted that Kyrgyz NGOs

received support from their counterparts working in global and European civil networks, and therefore were in a position to substantiate their position with fresh data and shared knowledge.

### What preceded HIPC rejection?

The representatives of some Kyrgyz youth and human rights groups began holding protest pickets in summer 2006, by which time it had become clear that the government had agreed to consider joining HIPC without inclusive public debates and despite anti-HIPC publications in almost all local media.

The last big protest action took place in front of the parliament building in Bishkek, Kyrgyzstan's capital, on 23 January 2007. Since November 2006, Kyrgyz youth groups had been organising gatherings outside the World Bank's offices in Bishkek with elements of theatrical shows – including the burning of dolls that symbolised the IMF and the World Bank.

The imposition of HIPC 'triggers' (conditions that duplicate the usual set of privatisation and market liberalisation schemes that have been unleashed – often catastrophically – around the world by the IMF and the World Bank) alienated the Kyrgyz parliament and contributed to the governmental crisis.

Aware of the fact that Kyrgyz MPs had not shared his enthusiasm for HIPC, and fearing that they might vote against the adoption of HIPC – despite the pro-HIPC zeal of his finance minister – the then Kyrgyz premier Felix Kulov and all his cabinet resigned on 19 December 2006 in a move that sparked political turmoil right before the New Year holidays. Kulov was not able to reinstall himself as prime minister in January 2007 because national lawmakers refused to reappoint him.

HIPC sparked widespread irritation in various layers of Kyrgyz society. There were three or four popular movements by January 2007 that included the "anti-HIPC" message in their names.

Aziza Abdrasulova, a leader of an anti-HIPC coalition, said that the government could not negotiate such serious issues without the risks of igniting massive unrest in the country. She likened former premier Felix Kulov to a passenger in a train that could depart at any moment while leaving the country in havoc. Aziza also said that if Felix Kulov was seeking fame for his loyalty to HIPC, he could only obtain the stigma of Augusto Pinochet in the eyes of many Kyrgyz citizens.

*Natalia Ablova*

*Bureau on Human Rights and Rule of Law, Kyrgyz Republic*

## PLANES, LOANS AND AUTOMOBILES

The report's findings are alarming, and include among others:

- Globally, over half of the EIB's transport investments have gone to roads and air transport; in central and eastern Europe this figure stands at 68 per cent.
- The total likely annual CO2 emissions from selected EIB-financed airport expansion projects such as Heathrow Terminal 5, Schiphol 5th runway and Madrid Bajas Terminal 4, if the new capacity is fully used (45.15 mt), is more than the individual total annual CO2 emissions of New Zealand, Switzerland, Ireland, Norway or Slovakia
- The car industry – with notable clients including Jaguar, Volkswagen and Land Rover – dominates the EIB's lending to the industrial sector, with 31 per cent of EIB industry loans worldwide supporting car manufacturing – at least three times more than any other industry sector. Support for car manufacturing makes up 63 per cent of EIB industry investments in central and eastern Europe.
- In 2002 and 2003 the EIB provided loans totalling EUR 1.3 billion for the modernisation of the London Under-



ground as part of the notorious public-private partnership scheme benefiting WS Atkins, Balfour Beatty, Bombardier, Seaboard and Thames Water, Amey and Bechtel.

- In addition to a EUR 700 million loan to the European Aeronautic Defence and Space Company in 2002, between 1996 and 2005 EIB loans totalling EUR 2.9 billion were given to various airline companies for purchasing Airbus planes. It is unknown how much Airbus made as a result of these deals.

One root cause of these problematic, climate-change fuelling practices identified in the new report is that the EIB has no transport strategy of its own – it is supposed to follow the EU's transport priorities but tends to neglect the most progressive ones such as moving traffic onto rails and addressing transport growth.

Indeed, as our research shows, the EIB has an overriding tendency to respond to its clients' demands rather than to the long term challenges facing Europe and the rest of the world, such as decreasing greenhouse gas emissions from the transport sector, decreasing the sector's oil-dependency and decoupling transport and economic growth.

Bankwatch believes that the EIB has the potential to be a key source supporting true environmental revolution in European transport development. For example, in the new budgetary period (2007-2013) the EIB will be the main co-financing source for the EU funds and will also be a leading institution in the development of major infrastructure projects in CEE countries through the JASPERS Initiative, as well as its central management role of the Trans European Transport Network (TEN-T) investment fund. In Russia, Ukraine, Belarus and Central Asia, where the EIB's lending mandate has been further extended, again transport infrastructure is one of the main priorities.

It's clearly time for an end to the kind of unsustainable investment trends that litter our new report, and Bankwatch is calling for:

- A halt in EIB investments to the aviation sector, a sector which is already heavily subsidised.
- A restriction in EIB loans to the road sector and car industry only for maintenance or safety improvements and for R&D aimed at delivering more efficient, cleaner and safer technologies.
- A requirement for increased EIB support for rail, urban public transport, inter-modal transport and transport management.
- The EIB to set year-on-year limits and targets for its transport sector lending that will result in much-needed reductions in greenhouse gas emissions.
- The elaboration of a clearly defined EIB transport sector operational policy that is currently lacking.

► **“Lost in transportation: the EIB's bias towards road and air transport” is available at: [http://bankwatch.org/documents/lost\\_in\\_transport.pdf](http://bankwatch.org/documents/lost_in_transport.pdf)**

**Accompanying the report are three 4 page fact sheets available at:**

**[http://bankwatch.org/documents/eib\\_transport\\_lending\\_corporates.pdf](http://bankwatch.org/documents/eib_transport_lending_corporates.pdf)**

**[http://bankwatch.org/documents/eib\\_transport\\_lending\\_overview.pdf](http://bankwatch.org/documents/eib_transport_lending_overview.pdf)**

**[http://bankwatch.org/documents/eib\\_transport\\_lending\\_climate\\_impacts.pdf](http://bankwatch.org/documents/eib_transport_lending_climate_impacts.pdf)**

**Hard copies of the fact sheets are available on request by writing to: [desislava@foeeurope.org](mailto:desislava@foeeurope.org)**

## The nuclear white elephant in Bulgaria's room

**In recent months the discussions in Bulgaria on the issue of nuclear power have plunged new – some would say comic – depths. Bulgarian politicians, sensing the nationalist and populist potential of pleading for the reopening of the dangerous and recently closed blocks 3 and 4 of the Kozloduy nuclear power plant (NPP), have been championing nuclear power via the use of some highly absurd argumentation.**

While the Bulgarian utility NEK and the Bulgarian Ministry for Economy and Energy are experiencing problems with finding the money for the new Belene NPP, they have resorted to a strategy of small steps. Instead of looking for

an investor pool for the full EUR 5 to 6 billion needed for the controversial Belene project, they instead chose to issue a tender for EUR 250 million for project-related activities in 2007. At the same time, a shrieking chorus surrounding the end of the year Kozloduy closure – planned for many years – has been deployed to try to bribe the EU into giving financial support for Belene.

### Belene financing in trouble

Eleven banks are rumoured to have reacted to the tender for the first EUR 250 million tranche of the Belene project, but NEK has been notably anxious to keep their names

confidential. Last year every bank that according to Bulgarian Economy and Energy minister Roman Ovcharov had expressed an interest was contacted by Greenpeace and Bankwatch – and virtually all of them expressed either concern about the risks attached to the project or withdrew their initial interest completely. Bankwatch and Greenpeace believe that NEK has opted for a ‘cheese-knife’ approach: trying to get small amounts of money per tender in the hope that the banks concerned will not look at the overall risk.

Meanwhile in March, Bulgaria submitted documentation on the Belene project to the European Commission. This step has to be taken at least three months prior to the start of the construction of a new NPP. Not that construction could start anyway, as Macedonian citizens still have a complaint against the project’s Environmental Impact Assessment (EIA) in the High Administrative Court in Sofia. This procedure will continue for several months to come. But a submission of documents to the European Commission is also a prerequisite for Euratom loans.

Minister Ovcharov already bluffed in 2006 that Bulgaria would be receiving EUR 300 million from the Euratom funds for Belene. However, an application for Euratom funds has to date not been received by the European Commission, and there is every chance that the EU will not want to be a nuclear sugar daddy. But Bulgaria would not be Bulgaria if it did not try to find a way out via recourse to some unconventional, conspiratorial means.

### **The dance around Kozloduy 3 and 4**

In order to ‘force’ the EU to provide finance for Belene, Minister Ovcharov has boldly shown his hand by starting to play the Kozloduy card.

On December 31, blocks 3 and 4 of the Kozloduy NPP were closed, as foreseen in the EU Accession Treaty of Bulgaria. These VVER 440/230 blocks were deemed too unsafe to be operated for any longer period of time by the G7 summit in Munich in 1992. Bulgaria was able to negotiate a longer operation time than the initially previewed closing date of 1998-99. The first two blocks were closed in 2002.

In 2005, Bulgaria asked several pro-nuclear members of the European Parliament to push for a delay of the Kozloduy 3 and 4 closure. The argument was that the lights in Bulgaria would go out without the electricity from this plant. It soon became apparent, however, that Bulgaria has so much overcapacity that it had become the largest electricity exporter in the region – the lights would not be going off. Not to be outdone, the Bulgarians then raised the alarm that the electricity provision in the surrounding, importing countries would collapse. When Kozloduy 3 and 4 finally closed, nothing of the sort happened.

Andras Piebalgs, the EU’s Energy Commissioner, has made it unequivocally clear that there is no chance that the EU would accept the re-opening of Kozloduy 3 and 4. It would require the re-negotiation of the Accession Treaty for one thing, which means the unanimous support of all 25 ‘old’ EU member states, and it would also require safe reactors.

Currently, and digging in its heels even further, Bulgaria is attempting to woo its near neighbours into united support for the re-opening of the Kozloduy blocks. For Albania, Macedonia and Greece this provides a perfect alibi for their lack of investments into and care for their own electricity grid systems.

For instance, Macedonia has not, according to sources in the country, invested into its grid and generation capacity (let alone into increasing energy efficiency!) since the mid-1980s. In recent years it has profited from cheap imports



**■ TIME SEEMS TO BE RUNNING OUT, AS SUITORS FALL ONE BY ONE**

of electricity that have derived from Bulgaria's surplus capacity. This surplus in capacity was created precisely because Bulgaria had prepared for the Kozloduy closures – with exports really taking off in 2003, the year after the first two Kozloduy blocks were closed. This temporary surplus capacity, created by basic efficiency increases and increases in the availability of coal fired capacity, was cheaply sold on while still bringing in tidy extra profits for NEK. And the neighbouring countries could relax their own investments on the basis of these cheap electricity imports.

Even though Bulgaria has turned to members of the European Parliament, pro-nuclear lobby groups, and even former communist poets to chant and push for the prolongation of the Kozloduy 3 and 4 reactors' operation time, it must be clear to Ovcharov that this does not stand a chance.

One sentence keeps cropping up, though, in the media statements of the minister, who is himself a nuclear physicist educated at the university for the Russian nuclear lobby in Obninsk near Moscow: "If Kozloduy 3 and 4 cannot be re-opened, we will demand a higher compensation sum from the EU", and he has mentioned amounts of up to EUR one billion. The game is clear: nobody really cares about Kozloduy 3 and 4, which is some relief. However, Kozloduy 3 and 4 are being used as a bribing tool to get Euratom or other EU money that can help finance Belene.

Fortunately, the European Union has developed a tradition of transparency and openness. EU Commissioner Piebalgs remarked recently in his cool trademark way that the EU has already provided Bulgaria with hundreds of millions in compensation money to allow the new EU member state to adapt. He called on Bulgaria to start looking to the future rather than to the past.

And the reasons for such an approach couldn't be clearer. Bulgaria has an energy intensity that dwarves the EU-15 average by ten times. In comparison with the EUR 5-6 billion the Belene project will need to get off the ground, Bulgaria is investing a meagre EUR 200 million from the EBRD in energy efficiency. The state's largest renewable investment in 2006 was a 5 megawatt biomass co-generation plant in the ski-resort of Bansko that delivers cheaper energy than the Belene nuclear power plant will be able to generate. The country has the resources to replicate this project hundreds of times.

For Bulgaria the future does indeed lie in energy efficiency and the development of renewable energy resources – not in megalomaniac nuclear projects.

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■ **Further information and regular updates about the proposed Belene project are available at: <http://www.bluelink.net/belene/index-en.shtml>**

## Rospuda interview – EU law in the driving seat

**EU Environment Commissioner Stavros Dimas has talked recently about a potential "major catastrophe" if two planned bypasses in north-east Poland – part of the Via Baltica corridor – go ahead as planned through natural habitats that are protected by national and international environmental laws.**

The Commission's tough stance against the Polish government has now resulted in a case being lodged at the European Court of Justice, a move that has been welcomed by Polish and international campaigners who have been particularly impressed by the urgency adopted by the Commission in this high profile test case.

Robert Cyglicki, one of Bankwatch's coordinators in Poland, has worked on the Via Baltica campaign over the last couple of years, and joined other hardy souls in the Rospuda Valley protest camp last month. Here he gives some views on the hectic events of the last few weeks.

**What has most surprised you about the recent developments surrounding the Via Baltica?**

We've been most surprised by the Polish government's approach to solving the clash in the Rospuda Valley. They have proposed a local referendum to decide about the location of the expressway, to be held on the occasion of regional elections scheduled for May 20. This political posturing will not change anything but will cost taxpayers about EUR 700,000. The Rospuda Valley-Via Baltica conflict is not only about values or the political will to save nature or otherwise, it is about the whole European concept of the Natura 2000 system and its legal basis. This is why the European Commission ultimately took the case to the European Court of Justice.

**What is the latest news on the proposed referendum in Poland?**

There has been strong criticism of the referendum idea from the Polish Ombudsman and other recognised legal authorities, but for Law and Justice, the leading party in the Polish parliament, a referendum presents a very convenient occasion to run a regional election campaign. Thus the government is continuing to play with the referendum as a nice slogan, but no one wants to pay for it in reality.

**NGOs are proposing an alternative route for the Augustow bypass that would be less damaging to nature. Why is the government not taking this proposal seriously?**

The most common statement is that all legal requirements have been met, including consideration of the alternatives. They maintain that the variant designed and proposed by NGOs can not be considered as a serious one, yet at the same time they have been giving official statements to the Commission saying that this solution was seriously considered. We have experienced plenty more examples of such contradictions, not to mention that many of the comments have been nothing less than barefaced lies.

**There are something like 50 potential clashes between Natura 2000 sites and planned road projects in Poland. How do you see the Via Baltica case affecting these other cases?**

The results of the conflict around the Via Baltica expressway will definitely have far-reaching effects for other investment projects in Poland. And not only projects in Poland, but also for many others in other new member states. As already mentioned, this is not only about environmental values but also about the consistency of the nature protection system of Natura 2000. The final judgment on the case to be delivered by the Court of Justice will give more clarity on the interpretation of Article 6 of the Habitats

Directive, especially for those countries relatively new to the European Union. In practical terms for Poland, it may ensure that nature receives equal protection with the economic interests of landowners and investors.

In many central and eastern European countries nature has no value whatsoever for decision-makers and always loses out when procedures get simplified or breached. In the case of Rospuda, Polish decision-makers maintain that a 500 metre long bridge needs to be constructed in a protected site because initial talks about the routing started at the beginning of the 1990s and local communities reached agreement on that. However, there appears to be an all too frequent head in the sand approach when it comes to understanding that in the modern world nothing should be written in stone and that wrong decisions from the past should be reviewed in light of up to date practices and procedures.

**What is the campaign hoping for in the case that is now to be brought before the European Court of Justice?**

As a first step, we are expecting the Court to stop construction work before irreversible damage to the Rospuda wetlands occurs. It would then be good to have a quick legal proceeding and investigation, with a final judgment deciding whether constructions can be continued or suspended until new alternatives are taken into account. Given time it would be very important for us to prove that the proposed variant preferred by the investor and the government will not only cause serious environmental damage, but will also be incoherent with the strategy for road developments along the Via Baltica corridor, which is right now being prepared by the Scott Wilson company.

■ **Further background and a range of photos showing the region's stunning landscapes are available at: [www.viabalticainfo.org/](http://www.viabalticainfo.org/)**

## Your voice in Europe: support the Green paper on urban transport

**Is there a need for a common EU policy and actions at the EU level to resolve problems with urban transport? Bankwatch believes there is, and now you can give your opinion on the issue by identifying the main steps for the introduction of efficient and effective public transport in EU cities.**

The European Commission is preparing a Green paper on urban transport that will be finalised in the last quarter

of 2007, and it has posted a public online questionnaire that seeks to gauge public opinion on how urban transport problems can be addressed.

Although it is mainly up to individual cities to decide on their transport systems, the need to tackle climate change and the rapid rise in emissions and health impacts from transport in increasingly congested cities is necessitating EU level action on urban transport.



The major cities are very substantial contributors to climate change. London, for example, is estimated to be the eighth biggest emitter of greenhouse gas emissions (GHGs) in the world. London's local government has set itself a target of decreasing its GHGs by 60 percent by 2025. It has also established a congestion charging system that in the space of a few years has decreased the traffic in the city centre by one third. But such positive actions are rare among Europe's major cities. We are in fact mostly witnessing the opposite, with increasing air and noise pollution as well as congestion, especially in the new member states where the use of public transport has been falling drastically and private car use is rampaging ahead.

Bankwatch believes that actions at the EU level are necessary to address the four major barriers to the development of sustainable urban transport: insufficient financing, insufficient public participation, insufficient strategy and insufficient political support.

For example, public transport systems, especially those in CEE countries, have suffered from chronic under-investment in the last ten years. A just published Bankwatch and Friends of the Earth report has shown that EU support for urban transport in the next budgetary period 2007-2013 is on course to be very little more than symbolic – around 10 percent of all the transport funds available to the new member states. The EU's house bank – the European Investment Bank – also provides only around 5 percent of its annual lending portfolio for public transport projects.

■ **Such discrepancies need to be rectified. Let the European Commission know about them by completing the questionnaire on the Green paper on urban transport at:**

**<http://ec.europa.eu/yourvoice/ipm/forms/dispatch?form=urban&lang=en>**

The deadline is 30 April.

## First PPP motorway in Russia to cause problems for St Petersburg

**Forty thousand people living in St. Petersburg have been making their feelings known about a major new road – the Western High Speed Diameter (WHSD) – that is set to cut through the city and swallow public money. Yet, in spite of the environmental and economic doubts being raised about the EUR 2.5 billion project, the World Bank and the European Bank for Reconstruction and Development are intent on capturing an ever-growing share of the Russian market and seem unconcerned about the environmental and social problems that WHSD could bring about.**

WHSD, an 8-lane toll motorway, is a part of the IX Pan-European Transport Corridor linking St. Petersburg with Scandinavia, and has been presented as a strategic investment priority for St. Petersburg by the Russian authorities and international financiers.

The EU High Level Group, chaired by Loyola de Palacio, on the extension of the major trans-European transport axes to the neighbouring countries and regions deems the WHSD project to be one of longer term interest. Intriguingly, however, the billion euro project was put on a faster track than projects of “short to medium term interest” like the port of St. Petersburg, a high-speed passenger railway line from Moscow to St. Petersburg, the reconstruction of a railway section from St. Petersburg to Kotelnitch and the construction of a motorway from St. Petersburg to Moscow.

Construction of the road got underway in September 2005, while a concession tender was announced in 2006 with the winner to be chosen by October 2007. The road is also being promoted as a way of addressing traffic problems within the city by providing quick access to the city centre and letting cargo transport from the seaport exit from St. Petersburg.

However, as the road is routed through residential areas, thousands of people look set to find themselves living within 70-100 metres of huge traffic flows. A petition against the construction of the road because of health and environmental impacts has already attracted the signatures of 40,000 St. Petersburg residents.

Of equal concern, in the northern part of the city the highway is planned to pass along the border of the Yuntolovsky nature reserve and cross the forest which serves as its buffer zone. According to scientists who have studied the reserve ecosystem for many years, the pollution and noise from the highway will destroy the forest and affect the biodiversity of the whole Baltic region. The wetlands of the Yuntolovsky reserve provide a resting site for migratory birds flying from the Arctic region to western Europe and Scandinavia. Fifty-two kinds of birds, animals and plants found in the reserve are listed in the Red Data Book of the Baltic Region.



■ **“IT’S ONE OF THOSE PICTURES THAT IF YOU STARE LONG ENOUGH, YOU CAN MAKE SENSE OF IT, THOUGH I STILL HAVEN’T GOT IT YET”**

Another vulnerable area is the Gulf of Finland and the delta of the Neva river, where WHSD is planned to run through via a tunnel and partly as a bridge. The environmental consequences of such a routing would be massive: the construction works will cut the migration routes of birds and destroy fish spawning areas. Indeed there are serious concerns about likely impacts on Atlantic salmon which serve as a donor stock for the Russian and Scandinavian coasts.

#### **View from the banks**

Along with the EBRD, which has already started talks with the city, state authorities and the interested public, the World Bank has also been eyeing the WHSD project. Raymond Bourdeaux, the World Bank’s Senior Infrastructure Specialist and one of the guests of the WHSD road

show held at the EBRD’s London offices last December, pointed out that “no significant environmental and social problems are foreseen” for WHSD.

Could such confidence be related to the alarming lack of environmental oversight now tolerated by Russian law? Due to recent changes in Russian legislation introduced in December 2006, WHSD, like any other project, can be implemented without any environmental impact assessment (EIA) and without any consideration of public opinion. These new amendments passed by the Russian parliament abolish all kinds of EIA as well as public hearings. The EIA will be replaced by only one permission paper issued in the case of the project meeting all the “city-planning regulations”.

Regardless of this downsizing of Russian laws, the EBRD has reassured local NGOs in St. Petersburg that WHSD will comply with international standards. In the words of Bruno Balvanera, the head of the EBRD’s office in St. Petersburg: “The project has passed the first stage of approval. If we decide to finance the project we will make sure that an environmental impact assessment and public consultations are held properly.”

All the same, it should be remembered that the planning decision surrounding the motorway was taken without any public participation. Moreover, the project is formally divided into three parts – the northern, central and southern sectors of the motorway – which allows for the commencement of construction piece by piece (this is a familiar process used in major road projects and has become known as the “salami” approach) without a proper EIA of the whole project.

The EBRD’s tolerance of these salami tactics in other transport projects is no ideal guarantee that it will ensure that best practice is observed. Robert Coyle, an EBRD senior environmental adviser, prefers to speak about the “minimisation” of harmful impacts, but campaigning NGOs claim that such sentiments do not go far enough in the case of this project.

Indeed in December 2006, local protests led to the authorities organising public hearings related to the northern section of the road. Even though the hearings were held during working hours they were attended by more than 300 people. Nonetheless, public opinion was completely disregarded – 74 of 81 remarks and suggestions made and heard at the hearings were declined without any explanation.

#### **Traffic tricks**

Although the concessionaire has still to be chosen, the WHSD motorway is planned to be the first example of a Public-Private Partnership scheme in Russia. It will also be Russia’s first toll road, though varying forecasts about

expected traffic flows are adding to the public's lack of faith about the project's economic merits.

While the project documentation presented to the city residents gives a modest figure of 60,000 vehicles per day, the memorandum for investors placed on the WHSD official website ([www.whsd.ru](http://www.whsd.ru)) promises 560,000 vehicles a day by 2015. At the same time the City authorities claim the traffic will reach 128,000 vehicles per day by roughly the same date.

There are serious doubts that the traffic expectations are adequate. St. Petersburg already has a ring road around the city catering for transit transport. Campaigners believe that many people would opt to use a free of charge ring road rather than pay extra money on a toll road that goes in the same direction. The spectre of unduly excessive road demand expectations – familiar in western Europe and an increasingly common phenomenon across central and eastern Europe – is feared once again for the WHSD. The consequences of this should be grim reading for local taxpayers. Apart from being a co-financer, the St. Petersburg government is also the grantor of the concession agreement. This role commits the city to bear financial responsibility for the traffic risks and compensate the concessionaire from the city budget. Given the likely over-estimated traffic flows that would cause repayment difficulties for the concessionaire, the project runs the risk of being a serious burden on the city budget. The investment involves up to a fifth of the city's annual budget: the total cost of the construction of the motorway is currently estimated at 83.6 billion rubles (approximately EUR 2.5 billion euro), with 28 billion rubles coming from the state budget and 13.7 billion rubles to be paid by the city.

The St. Petersburg authorities claim that WHSD is also necessary to connect a future seaport – another dubious

project that includes the landfilling of 476 hectares and would allow freight vessels access into residential areas – to the ring road. Thus a vicious circle has been rubber-stamped: the government is planning the port close to the centre of the city with the convenient – or inconvenient, depending on your perspective – offer to allow freight transport a route from the port out of the city.

### One of many

In collaboration with local dissenting voices, the NGO Save Yuntolovo movement is sceptical about the feasibility of the motorway and is calling for a halt to its construction while the violation of the environmental rights of thousands of people continues apace.

According to Save Yuntolovo activist Tatyana Skrodenis, "A transit road across the city will not solve any traffic problems in St. Petersburg. The transportation policy must be changed to lower the number of cars in the city and develop all kinds of public transport, walking and cycling opportunities. Hypocritically, the European Union is very strict in requiring consideration of the alternatives when investing in Europe in order to choose the most rational option from the socio-economic point of view, but the EU banks and the Commission do not appear to be asking for the same with WHSD."

The group has proposed to the city authorities to establish a buffer zone for the Yuntolovsky reserve in order to protect the area and to develop its recreational and educational resources before it is too late.

Vera Ponomareva  
Save Yuntolovo



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