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EU budget 2014-2020: No guarantees for greener spending yet

On June 29 the European Commission presented its proposal regarding the size and shape the EU's long-term budget should take for the period 2014-2020, the so called Multi-annual Financial Framework.

In doing so the Commission tabled a budget for the next seven year post-2013 period amounting to €1.025 billion or 1.05 percent of the EU's Gross National Income (GNI), amounting to a five percent increase compared to the current 2007-2013 period of €975 billion that equates to one percent of the EU's GNI.

Below we set out the details and the thinking behind the proposals, as well as some of the faultlines that are already exercising national ministries and, it should be noted, civil society organisations whose top priority is to make sure that the lessons of the past are finally learned in order to arrive at a budget that might be called sustainable.

Terminology and numbers

The budget category of **'smart and inclusive growth'** includes the funds for European Cohesion policy, with €336 billion comprising roughly 33 percent of the total budget. Compared to the current budget of €344 billion or 36 percent of the total budget for cohesion, this means a slight decrease.

A new feature, the **"Connecting Europe Facility"**, to finance cross-border infrastructure projects for transport, energy, and information and telecommunications technology, would have a total of €50 billion at its disposal, including €10 billion earmarked from the Cohesion fund and replacing the current TEN-T and TEN-E budgets.

The proposal within the regional development sphere includes €39 billion in funding for transition regions, a new beneficiary category, replacing the old "phasing in – phasing out mechanism". Under this scheme regions with GDP lower than 90 percent of the EU per capita average but above the 75 percent level will be eligible for structural funds.

To boost research and innovation, the Commission is proposing €80 billion for a new programme called "Horizon 2020", a big increase compared to the current seventh research framework programme for 2007-13 of €50 billion. For education, training and youth a budget of €15.2 billion has been allocated, up by 70 percent from 2007-13.

€383 billion has been allocated to the funding lines for **agriculture, rural development and fisheries**, making up 37 percent of the total financial framework. In 2007-13, this share was 43 percent.

Spending on market-related schemes and direct aid to farmers will be €282 billion, 28 percent of the overall financing and down from 34 percent in 2007-13. Rural development has been allocated €90 billion, on a par with the previous level.

The proposal also seeks to close the gap between the level of direct payments in different member states, i.e. between recipients of farm subsidies in the old member states and the new member states as the direct payments are linked to historical production and vary greatly (e.g. the average direct payment per hectare of potentially eligible land and per beneficiary for the year 2013 is €94.7 in Latvia and €457.5 in the Netherlands, with an EU average of €269.1). For member states where the level of direct payments is less than 90 percent of the average, one-third of the gap will be closed.

On top of this comes a new €3.5 billion reserve for crises in the farm sector, and farmers would be able to benefit from the European Globalisation Fund, intended to

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The EIB, PPPs and the new colonisation of North Africa

The Daily Mail newspaper is widely regarded as the most right-wing, pro-free market, capitalist cheerleader in the UK press today. Take a look, then, at how the European Investment Bank shapes up in this Mail piece entitled 'Row over European Union loans to miners deepens after latest revelations' from July 1 this year:

"The EIB ostensibly provides loans to assist with economic development in developing countries. But the chief executive of one of the world's largest mineral corporations, who asked not to be named, said the greater aim was different. He said EIB loans helped ensure that European countries get their hands on Africa's mineral resources, at the expense of economic 'rivals' such as Russia and China."

The chief executive quoted heads a corporation that has received direct loans from the EIB. And the EIB is tasked by the new Treaty of Lisbon to be the main 'development' organ of the European Union. What this quote shows is how clearly the EIB serves naked EU self-interest under the hypocritical guise of helping the Global South.

So when the EIB, the EU and the G8 start talking about 'developing' North Africa, let's be clear what it really means: as ever, it's about making the world safe for corporations.

The G8 are proposing up to USD 20 billion for the recently revolutionised region: not as grants to help people who've courageously thrown out old and corrupt regimes, but, according to official announcements, "to strengthen governance and bolster the business climate" including a package of "deep and comprehensive free trade agreements and investment."

And how did that 'business-friendly' approach serve Egypt and Tunisia in the recent past? The EIB for one was in with the Mubarak regime up to the elbows: of the EUR 1.87 billion loaned by the EIB to Egypt between 2006 and 2010, 92 percent was directed at energy projects – four-fifths to promote fossil fuels. Virtually all of those projects are export-

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driven, giving nothing to local people who are suffering an energy crisis, and many of them are hugely contentious – none more so than the gas export pipeline to Israel which has been bombed four times and whose progenitor, a Mubarak crony, has now fled to Spain to avoid trial for extensive corruption. Of the EUR 1.8 billion loaned by the EIB to Tunisia in the same period, half went to energy projects, and 10 percent was invested in infrastructure for transporting gas to Italy.

Building on this chequered lending history, the new EIB plan for North Africa involves something even more malevolent: public-private partnerships (PPPs).

The EIB has had little hesitation in touting the PPP model as the future of Mahgreb development, already having held conferences predicated on the idea that, "PPPs can be a driver of modernisation, making it possible not only to mobilise the capital required for infrastructure projects but also to help transfer technical and managerial expertise. Furthermore, PPPs have the advantage of instilling discipline between all the project partners at every stage of the design, construction and operation of the infrastructure concerned."

The truth is quite different: PPPs are a key tool of the private sector takeover and, in this case, colonisation of the public sphere. One of the few original contributions Britain has made to global politics in recent decades, PPPs originated in the early 1990s and were enthusiastically seized upon by former UK finance minister Gordon Brown in order to keep large-scale infrastructure spending costs 'off balance sheet' by paying only a small fraction of the bill up front. Unfortunately, they also locked in massive payments to private corporations for decades after the projects are completed, enormously inflating the final price tag: the M25 widening project, for example, whose original cost was GBP 480 million and a project that the EIB has provided substantial support to, ended up costing the taxpayer GBP 6.2 billion. So much for the 'market efficiency' argument.

PPP contracts in the South are, if anything, even worse: Philippine NGO the IBON Foundation observes that, "PPP contracts are loaded with favorable terms for investors like guaranteed return on investment, guaranteed market and sales, fiscal incentives, full cost recovery including on inflation and currency fluctuation, and even unheard-of sweeteners such as subsidies for production input, all of which are borne by the people as consumers and as taxpayers."

Even worse, corporations also retain control over the assets after construction and payment is finished, leasing them back to the state – meaning that PPPs are a key technique for the privatisation and transfer of public assets into the hands of a financial elite.

And that is perhaps the most nauseating aspect of the G8/EU 'assistance' to North Africa: it's completely antithetical to the spirit behind the revolutions. The revolutions were popular movements aimed at regaining popular control; PPPs do the exact opposite, taking essential resources from the people's hands and into the spreadsheets of EU mega-corporations.

Local rejection of the new colonialism is quite clear: "Aid purported to support the people's revolutions should not end up restricting the democratic transition and diverting the revolutions' economic and social justice goals," says a statement issued this summer by 67 Arab civil society organisations in twelve countries. "Indeed, the change pursued by the peoples of the region is not served by increase in aid that comes tied with recipes for further liberalization of trade and investment, deregulation under the umbrella of "bolstering the business climate", and frameworks of conditionality linked to macroeconomic stability objectives."

The least we can do in Europe is to support that rejection. No PPPs and no new colonialism for North Africa, and existing debt repayments to be subject to rigorous debt audits to find out what is legitimately owed and what is odious debt. That would at least be a step towards real 'development'.

Slovenian coal power plant plans from page 1

help workers affected by globalisation find new jobs though retraining. The fund has been allocated €2.5 billion for 2014–20. The Commission also intends to cap the level of direct payments to large agricultural holdings, conditional on economic and labour considerations.

The funds explicitly dedicated to the environment and climate action, the LIFE+ program, is equipped with €3.2 billion, compared to €2.3 billion currently. It is split into two sub-programmes: €2.4 billion for environment and €800 million for climate action.

The Commission is also proposing to allocate €19 billion for **"Security and Citizenship"**, including €8.2 billion for justice and home affairs, and €455 million for civil protection and the European emergency response capacity, a 43 percent increase.

The proposal allocates €70 billion for **external relations** (Global Europe), an increase of 25 percent compared to 2007–13. The European neighbourhood instrument (ENI), which provides the funding for countries in the (Middle) East and north Africa, will receive €16 billion, a €5 billion increase compared to 2007 –2013; additional to that a Partnership Instrument (PI) has been allocated €1 billion. €20.5 billion funding is foreseen for the Development and Cooperation Instrument (DCI) to contribute to achieving the Millennium Development Goals of poverty alleviation and improving education and healthcare levels, a €4 billion increase.

The Commission's own operations are worth €63 billion in the newly proposed budget for **administration**, i.e. the institutions, pension schemes and European Schools. This compares with €50 billion for 2007–13. However, the Commission has pledged to reduce its staff by 5 percent and to increase working hours from 37.5 to 40 hours per week.

As in the current period some financial commitments of member states of the EU are budgeted **"outside the MFF"**, such as the European Development Fund (EDF, which has been split into two, with €321 billion for overseas countries and territories and €30 billion for African, Caribbean and Pacific countries), and do not count as part of the EU's budget. Newly moved out of the official EU books, however, are two trans-national initiatives: the GMES (Global Monitoring for Environment and Security) and ITER (International Thermonuclear Experimental Reactor). A not yet defined Global Climate and Biodiversity Fund as well as several other reserves have been placed outside the MFF as well, e.g. there will be a €2.5 billion emergency aid reserve for unforeseen events.

On the income side of the EU budget, the European Commission set out its proposal for **a new own resource system**, which would partially finance the EU budget and could replace the existing complex GNI + VAT based own resources. The Commission is proposing two new sources of income: a so called Financial Transaction Tax and a new European VAT of up to two percent.

THE PROPOSED BUDGET FOR 2014-2020 IS STRUCTURED INTO FIVE SUB-HEADINGS:

"1. Smart and Inclusive Growth"
including Cohesion Policy, infrastructure, research and education;

"2. Sustainable Growth: natural resources"
covering the EU's Common Agricultural Policy, Fisheries and the instrument for the environment LIFE+;

"3. Security and Citizenship"
is for its internal policies and programmes;

"4. Global Europe"
concerns the external financing instruments such as the Instrument for Pre-Accession (IPA), the European neighbourhood Instrument (ENI), a Partnership Instrument (PI) and the Development Coorperation Instrument (DCI), and;

"5. Administration"
provides the sources for the institutions, pensions and European Schools.

This structure largely resembles the structure of the current period, with some slight variations in the labels given to the budget headings and programmes.

The budget battle commences

Almost immediately after the release of the new proposal, a storm of protest broke out, rather predictably: commenting on the Financial Transaction Tax, a UK government spokesman swiftly dismissed the idea as 'completely unrealistic', claiming that "the City" in London would be disproportionally penalised. And indeed, this could be the member states' nightmare becoming true: giving the EU the right to tax would mean an unprecedented act of transferring member states' sovereignty to Brussels.

Yet another red card was shown by the German government, reacting to the proposed five percent increase of the total budget. This is a higher increase than the "big 5" (Germany, France, the UK, Netherlands and Finland) were calling for in a letter to the European Commission in December 2010, where they demanded a "freeze" of the EU budget to one percent of the EU's GNI (Gross National Income), compared to the 1.05 percent of the EU's GNI in the Commission's current proposal. The "shadow budget", those expenditures budgeted outside the MFF, are controversial as well, as they would mean a "hidden increase" of the actual EU budget.

The Commission's proposal to replace all corrections mechanisms by a system of fixed annual lump sums for 2014–2020 might become another bone of contention. Rebates in contribution to the EU budget are adding up to €7.5 billion annually, financed by all member states. The UK maintains the level of its rebate with €3.6 billion. A discount of €1.05 billion for the Netherlands and €0.35 billion for Sweden is foreseen. And Germany has already announced not being satisfied with the €2.5 billion discount it has been allocated, as it would worsen their net payer position. Meanwhile, France and other member states have been mounting pressure in recent years for all the rebates to be scrapped.

But that upcoming tussle for cash misses the point. The real issue about the EU budget is not the total amount – a relatively small sum when compared to national government budgets and the size of the EU with its 500 million citizens and the manifold political objectives it has to pursue – but the quality of its execution, the ways in which EU taxpayers' money is distributed throughout the several programmes and policies. Civil society has been calling for years for a bold reform of the EU budget, one that brings to an end the provision of harmful subsidies which further deteriorate the state of the environment and increase greenhouse gas emissions. Instead the EU budget should be used as the genuine European investment tool that catalyses the transition of European economies towards a level of sustainability in energy and resource consumption.

So the important question is rather what is hidden behind the budget lines – is there a shift intended in the quality of the spending, and even steps towards establishing a green economy which would remain within the ecological limits of the planet?

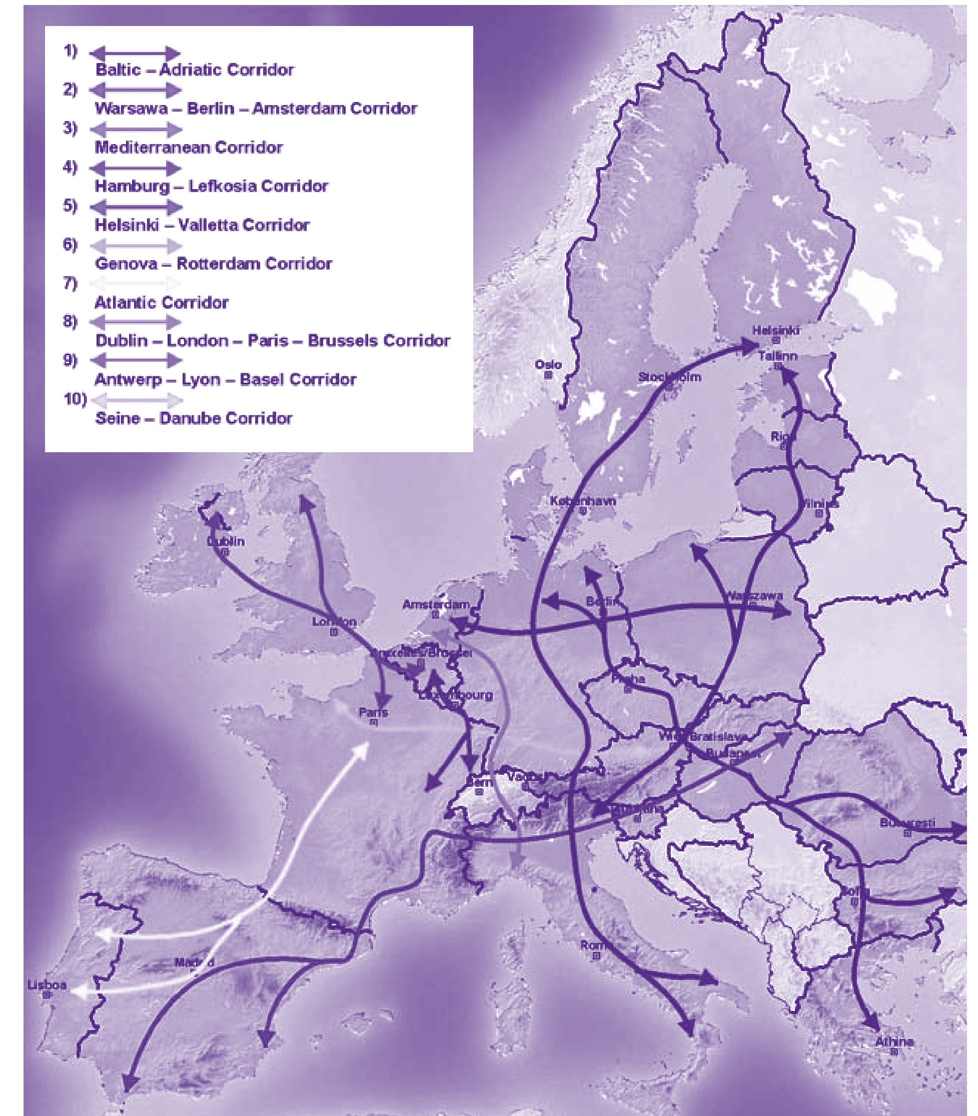
Behind the frontline: old wine in new bottles or room for sustainable development?

By re-labelling some of the subchapters "Smart and Inclusive Growth" and "Sustainable Growth: natural resources", the European Commission intends to give visibility to its "Europe 2020 strategy for smart, inclusive and sustainable growth". This 10 year EU strategy is supposed to be the guiding framework for the execution of the budget until 2020, and at the end the budget should deliver the Europe 2020 goals, e.g. for climate, energy and biodiversity (20 percent GHG emissions reduction, a 20 percent share of renewable energies, a 20 percent increase in energy efficiency and an end to biodiversity loss).

Yet looking at the pure figures of the actual budget table, these new headings remain the only indicators of the "innovative approach" towards the EU budget that President Barroso announced in his introductory speech. No big extra money for climate action or the protection of the environment has been earmarked and no clear financial targets have been set for investments in biodiversity and climate. Despite a marginal increase in the LIFE programme, the only dedicated tool for the environment, this fund is still going to receive an almost irrelevant 0.31 percent of the Budget. Looking at the figures alone, the lack of overall ambition and of serious commitments to sustain Europe's ecological systems becomes apparent.

But within its communication the European Commission places a set of "policy fiches" alongside the budget table, elaborating their policy objectives, and how in-

▾ Source: Janusz Lewandowski, Commissioner for Financial Programming and Budget, European Commission, press conference on 29 June 2011



struments and implementation methods of the budget will contribute to their achievements. Within this narrative frame, the Commission reveals some elements which could – potentially – steer the spending in a more sustainable direction.

So it calls for bold climate action. Environmental policy and climate change action should be included in all of the EU's main funding instruments including cohesion, agriculture, maritime and fisheries policy, research and innovation and external aid.

The Commission plans to increase the share of climate-related expenditure to at least 20 percent of the overall financing framework, tracked by so called “Rio markers”. Mainstreaming climate change policies and objectives should aim at “climate- and environmental proofing” of all investments. The funding for cohesion policy would be more closely linked to the Europe 2020 objectives, for “richer member states” investments into energy efficiency and renewables shall become obligatory and beneficiaries of Cohesion Funds (“poorer member states below 90 percent of GDP per capita average) can also support – besides transport and environment – projects related to energy, as long as they clearly present a benefit to the environment, i.e. promoting energy efficiency and renewable energy.

Besides further financing of environmental infrastructure in order to implement the environmental acquis (water, waste, marine, air quality, flood legislation), the development of green infrastructure shall be promoted and eco-innovation shall be supported more broadly. Mainstreamed support for the environment, such as environmental infrastructure, eco-systems and biodiversity shall become part of the EU’s external action, towards candidate, neighbouring and developing countries.

The Commission also wants new conditionality rules so that there are stronger incentives for national governments to meet the Europe 2020 goals, as well as to guarantee the implementation of the EU’s environmental acquis and the necessary institutional capacity. It even proposes sanctions in case pre-specified targets are not accomplished. Each member state will have partnership contracts setting out specific objectives based on agreed indicators and milestones, integrated into an annual monitoring and evaluation system.

Thirty percent of the CAP income subsidies shall be attached to (unspecified) “greening” commitments and a re-orientation of the fisheries fund towards support for sustainable fisheries and conservation of the marine environment is envisaged.

On the other hand the budget proposal includes a massive increase in infrastructure funding to €50 billion, establishing the so called “Connecting Europe Facility”. The money is destined for rebuilding Europe’s transport, energy and communication infrastructure, but it will also be directed to potentially polluting projects and there is no guarantee it will be spent sustainably.

The transport core network aims to carry freight and passenger traffic with high efficiency and low emissions and to make extensive use of existing infrastructure, completing missing links and alleviating bottlenecks and using more efficient services in multimodal combinations. However, increasing road traffic and further support for connections to airports is included here as well.

In the same breath the proposed budget in the energy sector is intended to promote the development of smart green energy grids as a horizontal priority, while also developing polluting oil and gas corridors.

Regulations needed to close the backdoor to harmful spending

The budget proposal in its current state, even though offering a couple of hooks, incentives and objectives to make the EU budget more sustainable, still allows for the possibility that member states will choose a wasteful, fossil fuel path, that serves only the short term. This is why, this autumn, the Commission needs to complement this budget proposal with strong regulations for the use of individual funds, making sure that allocations for infrastructure and cohesion primarily go to low-carbon transport, energy savings, renewables and smart grids.

This is especially important for the member states in central and eastern Europe, which will probably see an increase in their share of contributions from the structural and cohesion funds from 45 percent to 55 percent in relation to the old member states, and which have a bad record in misusing the EU funds.

Specifically the climate and environmental mainstreaming needs to be operationalised, defined and fixed within the new regulations. The proofing mechanisms, such as SEA or EIA, need to be adopted or further developed to make them sharp and convenient for their supposed purposes. It has to be ensured that member states commit to specific targets related to climate change and resource efficiency and that they can be held accountable for achieving these targets.

Finally, the issues of transparency, public participation and partnership are totally absent in the Commission’s proposal. In order to regain public legitimacy for its budget the European Commission needs to make sure that the EU budget is no longer a big mystery, and thus it needs to set standards of transparency, provide access to information and insist on the inclusion of the public into the decision making, planning and programming of its funds.

EU BUDGET: KEY UPCOMING DATES

October 5: European Commission to present its proposal for the next generation of regulations for the Cohesion Policy.

October 20-21: European Commission, European Parliament and Polish Presidency to hold a conference in Brussels on the Multi-annual Financial Framework.

November 15: General Affairs council (member states' ministers) on the Multi-annual Financial Framework.

December 9: European Council, report on the Multi-annual Financial Framework by the Polish Presidency.

Fourth quarter 2011: Legislative proposals on Cohesion Policy, CAP, the Common Strategic Framework, and the Multi-annual Financial Framework.

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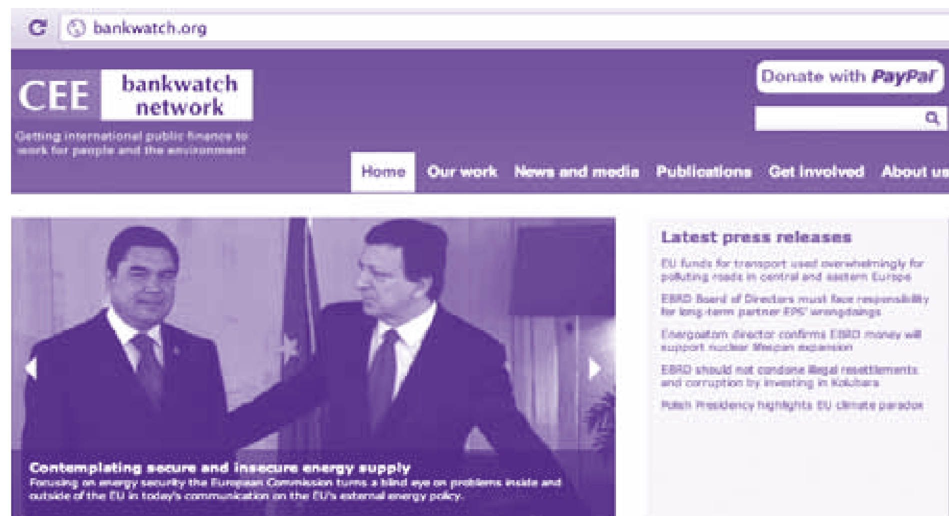

End of the line for climate damaging transport lending at the EIB?

July saw the European Investment Bank convene a public meeting on its Transport Lending Policy – currently up for review – and it turned out to be an occasion that drew significant attendance and interest from transport sector companies, arguably showing unprecedented interest in such an EIB event.

Joining Bankwatch at the meeting were representatives from the air, road and maritime sectors, including from such companies and industry bodies as Caterpillar, Alstom, the Association of European Airlines, the European Union Road Federation, the European Council for Automotive R&D, the European Marine Equipment Council, the Community of European Shipyards Associations, and the European Automobile Manufacturers – all seemingly intent on ensuring that the EIB will extend the kind of support that has been such a boon to Europe’s car industry since the outbreak of the economic crisis in late 2008.

Yet a palpable sense of fear also accompanied the big industry players to the Bibliothèque Solvay in Brussels: could a fundamental change in the EIB’s transport policy be just around the corner, a change – being largely driven by wider EU policy initiatives – that will bring an end to the bank’s unsustainable status quo transport lending?

Bankwatch maintains that the EIB's new transport policy must contribute to a swift and effective reduction in the transport sector's carbon footprint. Given that the sector currently contributes around 20 percent of greenhouse gas emissions in Europe (second only to the energy sector), this is a challenge that the EIB has to grasp and one in which it can play a leading role.

The EIB’s current transport policy – adopted in 2007 – shared Bankwatch’s views on the importance of climate change. It explicitly declares an emphasis on “railways, urban transport, inland waterways and maritime projects as these are intrinsically the most promising in terms of reducing greenhouse gas emissions per transport unit.”

However, the EIB's recent lending practice in the transport sector has categorically failed to deliver on the crucial climate questions. Bankwatch’s analysis of the EIB's transport and related industry investments from 2006-2009 shows:

- 54 percent (out of EUR 67.6 billion invested in the transport sector) went for the most carbon intensive transport modes: 45 percent for road, 9 percent for aviation investments.
- This compares to 32 percent invested in transport modes with a smaller climate impact – rail and urban public transport. EIB investments into public transport have plummeted since their peak in 2005.
- Even worse, in central and eastern Europe at least 66 percent of EIB investments went to road projects.

> “Bankwatch maintains that the EIB's new transport policy must contribute to a swift and effective reduction in the transport sector's carbon footprint.”

Further analysis of the EIB's investments in research, development and innovation (RDI) reveals more alarming findings. Over the last three years more than EUR 7 billion of the EIB's Climate Action RDI budget (that is, over 72 percent) has been invested in the car industry. Broken down for the last two years, car manufacturers consumed almost 18 percent of the EIB's total programme for Climate Action within the European Union in 2010 and almost 25 percent in 2009.

Clearly, much needs to be done to reverse these trends – and external pressure is bearing down on the EIB. At the meeting, EIB vice-president Phillippe de Fontaine-Vive explained that the need to review the Transport Lending Policy is being driven by the requirement for the bank to follow the EU’s policy objectives, especially those arising from the 2011 Transport White Paper, the Europe 2020 Strategy and the Roadmap for moving to a competitive low-carbon economy in 2050.

These factors appear, somewhat belatedly, to be gaining high level traction within the EIB. At the annual EIB Board of Governors meeting in May, climate change was recognised as one of the key priorities for the bank’s operations. This gives the EIB a clear objective and basis to introduce more significant changes in its Transport Lending Policy.

When taken in tandem with the 2011 Transport White Paper, the impulse for change is now unignorable: the White Paper: Roadmap to a Single European Transport Area – Towards a competitive and resource efficient transport system confirms that the primary objective of the EU transport policy is greenhouse gas reduction from the sector, which also entails a number of other important benefits such as increased energy security and a reduction in other pollutants.

Where else have things been going wrong – or down a dead-end – as far as the EU bank’s transport lending is concerned?

Sustainable Transport (which includes rail and urban transport) is a significant part of the EIB’s Climate Action, yet regretably in 2010 this program constituted only 44.1 percent of the total transport (including transport equipment) lending in the EU. Of further concern is the fact that in the EU’s new eastern member states only little more than six percent of the Sustainable Transport lending is taking place. For example, when it comes to EIB operations in Poland – the biggest recipient of EIB transport loans in central and eastern Europe – more than five times more EIB investment money in 2010 went to the construction and modernisation of motorways and roads than on projects under the Sustainable Transport programme.

Returning to the major, EUR 7 billion plus EIB support in recent years to the European car industry, including for such companies as Volkswagen and Daimler, the suspicion remains that the EIB has done little more than issue crisis bail-out money under the veneer of climate change mitigation. While it is certainly true that European car manufacturers need to bring down the emissions from the cars they manufacture, it is absurd to rely on this as the main plank of decreasing emissions. Any growth in the number of cars is likely to cancel out resulting emissions reductions. It's not just Bankwatch who thinks that demand management and modal shift need to be put at the centre of any sane transport policy – the European Environment Agency’s TERM report 2009 agrees with us on this point.

What does the EIB need to do, then, when it comes to the vital transport plank within its overall lending?

First of all would be a basic, clear and stronger commitment to support the initiative to reduce transport

sector emissions by 2050 by 60 percent comparing to the 1990 level. In order to achieve this, the EIB should no longer offer support willy–nilly to every mode of transport in order to satisfy sectoral business interests but instead should prioritise those which will bring the greatest desirable effects. To achieve these basic ends, the EIB will have to put up suitably staunch resistance to the transport industry, notably to the aviation industry that is already looking for a repeat of the recent car–makers' beanfeast for itself.

Second, sustainable transport should be prioritised by the EIB, with more ambitious financial targets established in its Corporate Operational Plan. The EIB must finally consider what it wants to achieve via its transport lending and consequently work towards this direction – with current EU policy goals playing a major influential role. A positive step for the EIB would be to stop following client demand and start examining the cumulative impact of its investments. This would be followed by abandoning the concept of 'co–modality', a competing idea to 'modal shift', on which the bank currently justifies its unfocused lending.

The EIB has never been in a better position to substantially change the way it supports Europe's transport sector. Given now a very clear climate protection mandate from its governors, the EIB can draw on revised EU policies to come with a Transport Lending Policy which assesses scenarios of future transport needs and favours measures based on the 'Avoid, Shift and Improve' approach. That is to say, an approach that supports initiatives to reduce travel needs (avoid), promote a shift from road towards rail and public urban transport, and improve existing transport to make it more efficient.

An EIB focused on prevention and on stimulating a shift to more environmentally friendly transport would be able to vitally contribute to de–carbonisation of Europe's transport sector as well as help to meet other environmental, social and also financial imperatives.

Read more:
Further information on the EIB's recent transport lending record is available from this Bankwatch briefing: http://bankwatch.org/documents/MediaBriefing_EIBtransport_Nov2010.pdf

The **Mopani copper mine** – the EIB's **curious** idea of an environmental **success** story

In 2005, the European Investment Bank (EIB) granted a EUR 48 million loan from the resources of its Investment facility (FI) to the Mopani Copper Mine (MCM), for the renovation of its smelter at the Mufulira copper mine in the Zambian Copperbelt. According to the EIB, the loan aimed to reduce emissions of sulphur dioxide from the smelter, and thus improve the quality of the environment around the Mopani mine.

Six years on, the MCM project is in the spotlight because of serious suspicions of tax avoidance. A tax audit leaked in February 2011 by Counter Balance and les Amis de la Terre revealed that MCM, whose majority shareholder is the Swiss-based commodity trader Glencore, is strongly suspected of tax avoidance, principally because it uses transfer pricing to delocalise its profits in Switzerland. If, as the ensuing investigations into the case suggest, the EIB recognises it may have failed to assess MCM's integrity in tax matters, it is however striking that the bank does not seem to be questioning the environmental aspects of the project.

Indeed, while the EIB claims that "the project [has been] successfully implemented and the smelter is operational with environmental benefits demonstrated", Mopani is notorious for being one of the most polluting mines in Zambia, with massive emissions of dust, sulphur dioxide and other pollutants in the air and regular acid spillages in the surrounding water supply.

According to the EIB, its project has effectively eliminated half of the smelter's sulphur dioxide emissions and reduced discharges of dust. Yet the EIB has never provided any analysis that compares the emissions before and after the building of the new smelter in order to support its conclusion.

In contrast, during a fact-finding mission in August 2010 les Amis de la Terre and Counter Balance uncovered emissions measures taken for the period June-September 2009 showing the emissions of dust from the new smelter at anything up to 47 higher than World Health Organisation limits.

There is no available data for other emissions at the smelter, but the rest of the mine's installations are responsible for discharges of sulphur dioxide, arsenic, lead and copper that are also predominantly above all recommended limitations. This may be explained by operational mistakes, and by the increase of the total quantity of mineral treated by the smelter. What is clear is that the overall emissions picture at the projects cannot be deemed to be successful.

Beyond these poor waste management issues, a further issue of concern involves an in situ leaching (ISL) technique conceived in 2003 (prior to the EIB's engagement and loan) by MCM to extract copper from the Mufulira deposit. The ISL method consists of injecting a solution with sulphuric acid into the ground to dissolve the copper, and then to pump it back to the surface. The system is cheap for the company, but highly controversial, as the migration of an acid solution under pressure cannot be perfectly contained. And the technique's impacts on underground water and on land stability raise many questions.

In the case of Mopani, ISL has been responsible for two major contaminations of Mufulira's water network in 2005 and 2008. On the second occasion, between 700 and 800 people had to be rushed to hospital after drinking contaminated water, and water supplies were cut for several days.

Such events, aside from the highly dangerous health risks, are extremely problematic for people who cannot afford to buy bottled water daily. MCM received a fine of a few hundreds dollars for the accident, notably because it had failed to install an adequate pumping system. The water company has claimed that as long as MCM carries on practising ISL, there is no guarantee that acid contamination will not occur again. Several of Mufulira's inhabitants have confirmed that water supply cuts happen regularly because of mining activities. The use of large quantities of suplhuric acid also represents an ever present danger as it involves high volumes of acid being carried on bad roads. In December 2009, a truck overturned and its acid load was discharged in a river where the fish immediately died and plants were burned by the acidity.

Of course, it's not particularly suprising that MCM appears to have little interest in the preservation of the environment when you have a look at the records of its major shareholder, Glencore. Bigger than Nestle, Novartis and UBS in terms of revenues, Glencore is a company notorious for dealing with rogue states, being involved in serious cases of human rights violations, and too in environmental scandals. In 2003, two years before the EIB approved its loan to Mopani, Glencore closed its subsidiary MetalEurop Nord in France, suddendly axing jobs for hundreds of workers and leaving behind a heavily polluted site, without any clean up.

Major question marks persist, therefore, over whether Mopani can plausibly be considered "an environmental project", and considering the project promoter and the nature of the operations, this situation was foreseeable. Yet, the EIB seems to be in total denial of this situation.

Such blindness could be attributed to the EIB's lack of project monitoring capacities, its extremely limited number of environmental experts, or the pressure to lend that often drags the EIB into dodgy deals. EU development money has clearly been compromised in the case of Mopani, casting more doubt on the prudence of entrusting the EIB with such funds.

Read more: For a comprehensive overview of the EIB Mopani case, including recent high profile scandals centred on Glencore's tax activities, see the Counter Balance website: http://www.counterbalance-eib.org/?p=1310

Invitation to NGOs: Come **make history** with the EIB

For the first time in its history, and after several years of Bankwatch suggestions that face-to-face dialogue could bring fruitful results for all concerned, the EIB will convene a meeting between civil society organisations and the bank's Board of Directors on Monday, 17th October 2011 in Luxembourg.

The themes of the seminar will be:
- EIB operations and climate action
- Lending to small and medium size enterprises
- The development dimension of lending.

Organisations interested in taking part in this meeting should register through the EIB's website: www.eib.org/about/events/board–of–directors–seminar–with–civil–society.htm

Bankwatch also invites organisations to join our preparatory meeting for NGOs on 20th September in Brussels. Please contact Anna Roggenbuck annar@bankwatch.org or Desislava Stoyanova desislava@bankwatch.org to register for the NGO preparatory meeting.

EU funds for roads still all the rage in CEE, sustainable transport stuck in the back seat

A recently published report from Bankwatch shows how central and eastern European governments have been using EU funds billions overwhelmingly for the development of roads rather than rail, thus ignoring EU calls for decarbonisation of the transport sector. Bankwarch is urging the European Commission to introduce strict conditionalities in the new Cohesion Policy regulation next month in order to ensure that this pattern is not replicated in the next EU Budget (2014–2020).

"Transport is the only sector of the European economy where greenhouse gas emissions are increasing, and rapidly," says Pavel Pribyl, Bankwatch's transport coordinator. "EU member states have committed themselves to gradually decarbonising the sector. But the newest members do not seem to get it: ever since most of them joined the EU in 2007, they have used the bulk of funds available to them for the development of road and air transport, at the expense of cleaner rail. The EU, holding the purse strings on the expenses, has to do more to prevent these trends."

The short Bankwatch study analyses how EU regional funds allocated for transport for the period 2007–2013 have been used in four member states: Bulgaria, the Czech Republic, Estonia and Poland. In all countries, expenditures for roads make up the majority of available EU funds for transport: 1.3 billion out of 2 billion euros for transport have been allocated for roads in Bulgaria; in Poland, 10 out of 19.4 billion euros go to roads. In both Poland and the Czech Republic, in spite of disproportionately large initial allocations for roads, national governments have additionally attempted to further reallocate rail moneys to roads.

"In January this year, the Commission called on member states to use regional funds more effectively to promote sustainable transport, even indicating concrete measures national authorities could take in this direction," explains Pribyl. "But we doubt such a 'soft' call, coming past the halfway mark of the current seven–year budget period, could make any difference. The Commission should act pre–emptively instead and introduce enough safeguards in the Cohesion Policy regulation to be published in October to make sure that it can punish bad spenders with immediate withdrawal of funds and reward good spenders instead. We fear only a strong carrot and stick approach from the EU can make a difference in our region."

Read more: Find the new Bankwatch study "Transport cohesion on the right track?" at: http://bankwatch.org/sites/default/files/OP-transport-in-four-countries.pdf

Do EIB clients ever think: "This is like money for nothing"?

A new Counter Balance report, 'Dire Straits: EIB investments in Panama and their impacts on indigenous communities, workers and the environment', investigates three recent projects in Panama: the expansion of the Canal, and two hydro–electrical projects – Dos Mares and Barro Blanco. Based on a fact–finding mission to the country in autumn 2010, the report reveals how the international companies running the projects got away with violations of workers' rights and breaking environmental standards while leaving indigenous peoples that depend on the land and the river completely out of the process.

Counter Balance's Caterina Amicucci, co–author of the report, notes: "With some decent due diligence and monitoring of the projects, a lot of these abuses and problems could have been avoided. This report shows again that the European Investment Bank has neither the capacity, the know–how nor the will to properly scrutinise the projects it finances."

Read more:
Counter Balance's Panama report is available at: http://www.counterbalance-eib.org/wp-content/uploads/2011/05/PanamaReport_WEB.pdf

A slideshow promoting the report and containing exclusive photos from the fact-finding mission can be seen at: http://www.youtube.com/watch?v=-gxhugwEhPk&feature=player_embedded

Roadmap to a Resource Efficient Europe needs teeth and targets

In January 2011 the European Commission released its Flagship initiative on resource efficiency.From the outset the flagship initiative declined to set any targets for national governments, although Environment Commissioner Janez Potocnik noted that targets could well be tabled in subsequent variants of the initiative. In April this year, during an online consultation, CEE Bankwatch Network presented its statement on the EU's resource efficiency roadmap, deeming the roadmap to be a measure that can address and inform Europe's 2020 Strategy. The full 2050 'Roadmap to a Ressource Efficient Europe' is to be published by the European Commission later this month.

The Bankwatch paper provides suggestions for the priority measures which we believe should guide this flagship EU initiative. Bankwatch warns that EU climate targets cannot be achieved in the absence of binding energy efficiency and sectoral resource efficiency targets, backed up by appropriate financial support.

Bankwatch resource campaigner Marijan Galovic commented: "Over the past months, we have learnt that without more decisive action, the EU energy efficiency target for 2020 could be missed by almost half. It is therefore urgent that the resource efficiency Roadmap introduces stricter conditionalities on member states."

In parallel developments, in June the European Parliament's industry, research and energy committee rejected calls for EU resource efficiency targets in a vote on the European Commission's raw materials strategy.

In a speech at Green Week in Brussels this summer, though, Commissioner Potocnik provided encouragement to parties seeking real change within the resource efficiency debate, saying:

"One important question – and one that I take very seriously – is the question of whether we can

change anything without firm targets or ways to measure whether or not we've achieved them. The answer probably has to be no. But from discussions this week on this question it is also crystal clear that any such targets and indicators have to be robust and defendable if they are to lead us to success. The next crucial step for us then will be to intensify our work in coming weeks to see what we can achieve in this respect."

According to Bankwatch, the resource efficiency flagship initiative must ensure that long-term strategies in areas such as energy, climate change and transport policy deliver on resource efficiency objectives. Higher resource efficiency, in basic terms, means using fewer resources to achieve the same life span and quality, given a fixed set of materials. With this initiative the Commission has the oportunity to set an agenda that would reduce the demand for raw materials, their extraction and processing, while at the same time ensuring positive economic and social development. Furthermore, to ensure the successful implementation of the resource efficiency agenda, a vital role has to be played by mobilising EU public finance and integrating resource efficiency objectives in all financial instruments with EU participation.

To this end, Bankwatch is calling for the initiative to do more to mobilise EU and domestic financial resources, such as those under the Structural Funds and Cohesion Policy, to help the new member states in central and eastern Europe invest more sustainably in areas like resource and energy efficiency. Current standard practices are not helping: for example, in waste management the Structural and Cohesion funds are not helping to bring about waste prevention and reuse activity, priorities under the Waste Framework directive.

This should be a basic way to increase resource efficiency: to use financial resources in line with the waste hierarchy, which emphasises the prevention of waste production, reuse of waste materials and separate collection, namely through recycling and composting. Such a strategy will bring a double-dividend: reducing the need to extract and process new resources, while at the same time boosting job creation.

Financing for waste prevention has to be prioritised, followed by support for reuse, recycling, and recovery such as energy recovery. Disposal should be the option of last resort. Waste management plans across the EU's countries, regions and districts have to give a clear priority to waste prevention and recycling over other options. Using the Structural and Cohesion funds for incineration and land-filling, as is so prevalent today, has proven to be a capital intensive approach that has failed to solve waste management issues in the new member states.

The European Commission has the chance to make sure that available EU and national funds are used intelligently, to reduce energy consumption, rather than to provide short-term fixes which lock us in high consumption, resource intensive patterns. The Roadmap to a Resource Efficient Europe, to be announced later this month, needs to break new ground and steer well away from some of the dead ends taken up to now.

which the EIB's support for SMEs decreased compared to previous years. It is therefore not surprising that the EIB intervention has not even been noticed by some countries' central banks (e.g., in Poland) monitoring the financial markets.

2. Additionally in CEE, EIB loans were directed more often to larger SMEs: while, using EIB numbers, in the EU 27 the average size of an allocation to SMEs was equal to 157,000 Euros, in our region the average allocation was more than twice as large.

3. The EIB boasts in its report about how fast SMEs were able to receive the support from the bank, on favourable and easy terms; but, in reality, the bank only launched the scheme after a call from its shareholders who were concerned that commercial banks had stopped financing SMEs for a couple of months already. For example, in Poland the first anti-crisis loan for Fortis Bank was signed in November 2009, well after financing for SMEs had dried up after the onset of the crisis in autumn 2008.

4. The EIB claims that, with this scheme, it has introduced a "revolutionary change" in the sense that loans were supposed to be more transparent and accessible via simplified procedures. Unfortunately, our research showed that, at most, this was a revolutionary change to the benefit of the intermediaries, but not to the SMEs. Available pricing advantages for SMEs are well-kept secrets of the EIB and intermediaries; in our attempts to get information about how the EIB funds were disbursed, even reputable Western banks refused to give us the information requested. What kind of improved transparency is that?

5. Finally, the EIB report underlines the necessity of continuing the global loans scheme for SMEs after the crisis has faded out, as these enterprises are so important to our economies. In this case, a proper assessment of the consequences and impacts of the crisis package is surely very necessary if the EIB's global loans to SMEs are to genuinely bring about positive effects. As of yet, there is no sign of a proper assessment of this kind.

The EIB's July report into its support for SMEs amounts, disappointingly, to little more than window-dressing: more self-promotion than honest self-reflection. We believe the EIB can and should do more!

See more: Bankwatch's Isabella Besedova, author of the 'Missing in action' report into the EIB's SME lending, discusses the report's key findings at: http://www.youtube.com/watch?v=kGBsjp-MJcc

EIB's **proud** record of saying **very little** about **SME lending** continues

The most recent report by the European Investment Bank (EIB) on its crisis lending to small and medium enterprises (SMEs) seeks to address last year's Bankwatch research which showed that EIB crisis loans to SMEs were more helpful to commercial banks disbursing them than to the very cash-strapped SMEs they were supposed to help.

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On its website the EIB's assessment of its SME crisis support is unabashed: "During the financial crisis, the EIB Group made an exceptional effort to help small and medium-sized enterprises." In its latest study, published in July, the EIB also claims: "Some 105 000 SMEs received EIB Group support in 2009 and another 115 000 in 2010." Apart from the fact that once again the EIB remains startlingly coy about revealing the identities – or activities – of any of these thousands of SME beneficiaries, there are certain inconsistencies and arguable points underpinning its own justifications. Before looking at those, let's remind ourselves of what has been happening in this rather murky area of European development finance.

In 2008, the EIB initiated a stimulus package which included the immediate deployment of an additional EUR 15 billion to its 'global loan' lending in order to help support the SME sector across the EU. Global loans are a form of funding which, unlike the EIB's standard project financing, is provided to third party intermediaries (predominantly commercial banks), who then lend out the funds along with their own contribution to borrowers.

At the end of 2010, Bankwatch published its own assessment of the EIB crisis support for SMEs in central and eastern Europe (CEE), a much less optimistic evaluation of the bank's financing for SMEs than the self-assessment published by the EIB in mid-July.

The Bankwatch analysis of how this money was used in CEE concluded that, in essence, a package that was designed to stimulate the SME sector during the global financial crisis appears to have provided greater stimulation to the intermediary banks who were the initial recipients of the funding.

Among other telling issues, intermediary banks were not really rushing to pass on the money to SMEs, according to the Bankwatch findings. Until November 2010, according to the most optimistic evaluations, only 69 percent of the amount signed out by the EIB had been allocated to SMEs by intermediaries; for each intermediary that allocated the full amount provided by the EIB to SMEs, there was one intermediary which had not allocated even one cent. Additionally, SMEs in the region have themselves reported difficulty accessing the EIB's additional funding, largely due to the tightened lending conditions and restrictions imposed by local banks.

The Bankwatch report caused some furore among the EIB staff, which struggled earlier this year to contradict our findings and defend its investments. The overall feeling was that our report dealt a heavy blow to the credibility of the EIB's global loans. We held a hope that our analysis would force the EIB into some introspection and that the bank would consider reforming its lending system to remedy some of the deficiencies we had pointed to.

Unfortunately, July's EIB report on SMEs lending only goes to show that the bank prefers to produce documents that help it hail its own achievements (primarily big lending numbers) rather than rigorously attempting to reform its practices in a way that can really help SMEs.

Here are some problematic aspects of this most recent EIB report:

The EIB's definition of SMEs – as enterprises with up to 3,000 employees – differs significantly from the criteria used by the EU (even though the EIB calls itself the 'EU bank'). The EIB's medium enterprise is over ten times bigger than what the European Commission's official recommendation proposes. This faulty categorisation has a serious overestimating impact on EIB claims about the numbers of enterprises they were able to assist.

1. The EIB claims that it specifically responded to difficulties faced by central and eastern European SMEs in accessing funding. However, there were CEE countries in

Hungary's EU presidency brings positives and negatives for regional funds

Hungary's presidency of the European Union in the first half of 2011 was overseen by the conservative Fidesz dominated national government. Since 2010, this current administration has attracted attention for, on the one hand, emphasising national, domestic and patriotic interests against international corporate influence while, on the other hand, pursuing a largely neoliberal policy that prioritises economic growth above social and environmental considerations.

Promising initiatives for a "green economy" made at the start of this government's term a year ago have by and large now turned into mere rhetoric and technocratic approaches. Only in water management and rural development policies are real ecological solutions being promoted, as seen for example in the draft of the National Rural Development Strategy.

A strong parliamentary majority has unfortunately on several occasions also resulted in the government neglecting long-established consultation mechanisms with stakeholder groups from across Hungarian society; the themes, mechanisms and scope of consultation have become less frequent and effective. At the same time, though, environmental NGOs have notched up several successes in the last year where they have been able to advocate successfully for environmental interests – for example, in the case of a new national constitution, where several progressive parts were included concerning the interests of future generations, the protection of natural resources and other environmental issues.

It is in this context that we must look at and assess the performance of the Hungarian presidency of the EU when it comes to Cohesion Policy, in particular because the restructuring of the national institutional system of Cohesion Policy also happened in this period and was carried out without public consultation.

The new rules governing Cohesion Policy in Hungary unfortunately curtail the participation rights of civil society in several aspects. Furthermore, the European Council's conclusions on Cohesion Policy often reflect Hungarian priorities (in terms of conditionality, flexibility for regions to select their priorities, regulatory simplification etc.) but it is difficult to assess to what extent this is attributable to Hungary having particular influence as the country holding the presidency in the period.

Thus, even if the Hungarian presidency considers its performance to be a success story, and given its priorities it does from the outside appear to have been so (not to mention that the Hungarian presidency's approach was viewed by some to be open compared to previous presidencies), the picture from inside the country is less positive.

The Hungarian presidency aimed to harmonise Cohesion Policy and spatial development, the first of which being an EU competence and the latter a member state competence. They took remarkable steps to achieve by placing territorial cohesion high on the six month agenda. Even the Conclusions of the General Affairs Council note that "territorial cohesion should be taken into account in programming and implementation".

On the one hand, this is positive because it may also lead to a focusing of EU funds spending on real local and territorial needs. On the other hand, however, this may also be in line with efforts to object to structural conditionalities (e.g. climate and biodiversity proofing) on Cohesion Policy funding – by referring to territorial cohesion, member states may claim that they know best what their territorial priorities are and, therefore, there should not be any other conditions (such as those related to climate and biodiversity) imposed on them from the international level. Moreover, member states may use the reference to territorial cohesion as an argument for developing international transport routes, which again will jeopardise the natural environment.

The EU's Territorial Agenda of 2006 was also reviewed during the Hungarian presidency. While there may have been some international consultation, it ought also to have involved the National Council for Regional Development, but this did not happen. Regretably, while the Hungarian presidency's intention to debate Cohesion Policy at a high political level was worthy of praise, it did nonetheless result in the fact that practically all the events (including conferences) listed in the public brochure "Events of the Hungarian EU presidency in the field of regional policy" were reserved for high-level politicians (and some selected experts perhaps) only.

In saying that, though, on issue-specific consultation, the government organised a consultation meeting prior to each informal ministerial meeting (including that of ministers responsible for Spatial Planning and Territorial Development and Cohesion Policy) for relevant (invited) members of civil society. They also operated a website (euvonal.hu) with forums on various topics.

One positive message from the General Affairs Council, also in line with Hungarian priorities, is to object to the separation of the European Social Fund from other EU funding lines. Environmental NGOs have argued for years that the priorities and usage of European social, agricultural and regional development funds should be harmonised and serve the same development purposes from various angles.

The simplification of the rules on access to European Cohesion Policy funding, and the intention

to reduce the administrative burdens linked to the absorption of funds are reflected both in Council documents and the national position of Hungary. While this is positive for EU funds' beneficiaries, there is however a real threat that simplification may result in the elimination or serious reduction of environmental safeguards and social aspects.

When it comes to the involvement of various groups and the public in shaping the agenda of the Hungarian presidency, certain initiatives took place that future presidencies would do well to repeat. The first worth mentioning is a working group of NGOs convened by the Ministry of Foreign Affairs (of the previous government) at least a year before the start of the Presidency. The Presidency was also brought closer to the public through festival and roadshow-type events.

The European Civil Meeting on 6-7 June was the main official event of the presidency for civil society. It was commissioned to Szazadveg Political School Foundation who co-organised it with six other NGOs (the National Society of Conservationists – the national Friends of the Earth and Bankwatch group – among them) and brought together almost 400 NGOs from all over Europe to discuss issues of education, voluntarism, the integration of the Western Balkans, as well as participation and partnership, with special emphasis on Cohesion Policy.

During the meeting, the Deputy State Secretary for Development Affairs emphasised the role of partnership but did not make any clear commitment on how to apply it. The conference approved a progressive declaration about strengthening partnership within the Cohesion Policy – this has the potential to help the advocacy work of NGOs working on EU funds at the European and national level.

A bridge too far in Belgrade?

With the project finance spent, Gazela bridge is half finished, and Roma are stuck in transition from ghettoes. How much responsibility for this lies with the European Investment Bank, and how to avoid repeating the same mistakes with the Sava bridge project?

During the blistering hot summer days in Belgrade temperatures rise even higher if you are trying to get from one side of the River Sava to the other using the 'Gazela' bridge, constructed back in the 1970s. Huge queues of cars are the daily norm in a situation that gets worse every year and that affects not only transport flows in and out of the Serbian capital but on certain days impacts roads and communities up to 50 kilometres away.

It is not only the 150,000 passenger cars that are daily affected by what many now regard as some kind of infrastructure contagion – the public transport system of Belgrade and the surrounding region, with a large number of lines that directly use the Gazela bridge route to get to Belgrade city centre and to connect different parts of the city, is also being sucked into the nightmare of the capital commute.

The cause of these problems is ongoing reconstruction work on the bridge, work that commenced back in 2009 when Belgrade began deploying EUR 30 million on a project that was supported as far back as 2006 and officially signed off in 2008 with the European Investment Bank (EIB). Yet deep public misgivings and suspicions are spreading, understandibly as people start to wonder how is it possible that after two and a half years the responsible authorities of Belgrade and the public Roads Company of Serbia have spent all the assigned money, and yet these authorities can still declare that the situation with the bridge has deteriorated over the last three years even though reconstruction work has been carried out on all parts of the bridge. The overall state of progress on the reconstruction work remains unclear – save for the continuing headaches for commuters.

The plot thickened somewhat in early July this year when contradictory news appeared in the national media stating that Serbia would not be getting the final EUR 10 million of the originally assigned amount that was agreed with the EIB for finalisation of the Gazela reconstruction. However, a few days later this was apparently resolved when the authorities acknowledged that all the agreed project resources had been disbursed and that Serbia would request the EIB to provide an additional EUR 25 million to finalise work that should already have been finalised via the original EUR 30 million EIB loan.

As further reported in the media, the EIB appears unwilling to provide this additional funding. The Mayor of Belgrade reacted by confirming that Belgrade will try to raise the necessary additional funding from commercial banks and that 18 Serbia–based banks and foreign subsidiary banks have already been approached. Many of these private banking institutions are likely to have previously received significant funds from the EIB and the European Bank for Reconstruction and Development (EBRD) as part of the public banks' tailored schemes for channelling money, via private banks, to projects and small– and medium–sized enterprises.

Counter rumours, however, continue to suggest that the EIB may still be considering a second loan for the Gazela bridge reconstruction, raising concerns among Serbian human rights organisations that the EIB would thus be turning a blind eye to the serious human rights violations associated with the project, such as forced evictions, that have taken place in recent months across Belgrade.

Of course, amidst this ongoing debacle, one of the key questions to be addressed is how exactly does the EIB monitor the implementation of its projects, such as the Gazela bridge reconstruction?

If Serbia now needs a top–up of practically the same amount of project finance as was agreed for Gazela before 2009, who is responsible for such mistakes and why has the situation been allowed to get so out of hand? To date no evidence of bank monitoring related to the actual work done on Gazela has been disclosed, with the only monitoring reports disclosed being mostly related to the complex resettlement process associated with the project. However, it is highly likely that the age–old Serbian problem of corruption and misuse of public sector procurements across all sectors has had a role to play in this case.

With this new private bank dimension coming into play – it is worth noting that as yet no banks have been selected, though it is clear that the interest rate attached to private bank involvement will be much greater than the public bank rate – it is also worth giving some consideration as to how the EIB and the EBRD, as jointly responsible for this project, will ensure that Serbian banks that may already have received significant finance from them (either in the shape of loans or equity stakes) follow strict standards that should be in place for such a complicated and sensitive project – namely one that involves the resettlement and integration into normal life of 164 families of predominantly Roma origin.

In short, how will the European public banks ensure that those private banks which become involved in the project, banks that usually operate with a very low level of transparency, will follow strict standards and see to it that the families in question secure a long–term housing solution, social inclusion and work opportunities for the families' bread winners, as was laid down and agreed in the project's resettlement action plan supported by the EIB and the EBRD.

Roma resettlement grinds on unsatisfactorily

After three years of tremendous struggle and frustration, the resettlement situation surrounding the Gazela project looks like this: after repeated tenders and enormous pressure from international NGOs, the Serbian state has provided social housing for 11 families, but without – yet – providing them with furniture for those flats, while at the same time asking them to provide additional personal documentation – such as birth certificates, citizens ID cards – which amounts to EUR 100 per family, a sum beyond the means of these families.

At the same time, a further 90 families in Belgrade are still living in housing containers on the outskirts of the capital city with no regular jobs per one member of family as it was agreed, still surrounded by fences and effectively ghettoised. Despite limited success with integrating the families' children into kindergarten and the school system, human rights activists still complain that the solution is far from satisfactory.

The local Belgrade media barely ever covers the situation with the 64 families that have been resettled out of Belgrade in southern Serbian municipalities and communities. Indeed, shunting these families to the economically suffering municipalities of the south and east of Serbia such as Bojnik, Vranje and Lebane is having predictable consequences: a significant number of the families are moving back to districts in Belgrade where they are once again able to collect and sell waste, for many a single source of livelihood in autumn and winter.

In spite of repeated requests from NGOs, there has been no reaction from the international financial institutions to this. The banks do not appear interested to meet with those people that have returned to Belgrade from the south. Nor does there appear to be any willingness to question the authorities of Serbia and Belgrade as to how they plan to solve the situation of families that are left alone and moved back to Belgrade, nor as to how they plan to support the achieving of standards of housing and living for those families that remain in the southern municipalities.

And here the weight of responsibility on the EIB looks set to grow even further – there is to be resettlement for the Buvljak settlement in Belgrade as part of the Sava bridge construction, another EIB backed project. This latest infrastructure project will involve the resettlement of up to 100 predominantly Roma families that are located in the vicinity of the former Gazela settlement and that is now host to some of those families from Gazela that have made a full tour of the circle of poverty, having been removed from Gazela to the southern municipalities only to come back to Buvljak where they are deemed to be out of the process of resettlement on the basis that they were involved in Gazela.

How is it that these families included in the Gazela process were provided with sustainable support and yet are now back in Belgrade again living in hopeless slums, without regular water, food, income, or support for their children and their attendance at school? History is repeating, or at least Belgrade could be about to experience yet more high farce in connection with an important infrastructure project – how much more tragedy will it take to stir the dormant consciences of those responsible?

Europe's energy approach: whose security are we talking about?

In Warsaw in May CEE Bankwatch Network, together with the Heinrich-Böll-Foundation, the Polish Green Network and the Polish Climate Coalition, held an international conference to explore a rather slippery concept that is nonetheless central to current global energy discussions and debates: 'Energy Security – Polish, European and Global Perspectives due to the Polish EU presidency'.

The conference anticipated Poland's EU presidency, now taking place in the second half of 2011, with the EU's external energy policy as one of its main priorities – the Polish aim being to strengthen the Union's approach to external energy and thus improve the energy security of the member states. The conference aimed to put the wider context of EU external energy policy and its impact on developing countries into the spotlight and to challenge the concept of 'energy security' as it is used in EU external policies.

The conference proceedings are described below, but the principal concerns of civil society were realised earlier this month with the publication of the EU's external energy policy Communication, which regretably continues the decade-long approach of the EU to ensure the unhindered flow of fossil fuel energy supplies to Europe without real recognition of the problems this drive creates both inside and outside of the EU.

According to Bankwatch, many of the mega-projects prioritised by the European Commission in this communication will only exacerbate the EU's energy insecurity, principally by making Europe increasingly dependent on authoritarian regimes such as Azerbaijan and Turkmenistan.

The May conference speakers were drawn from the European Commission and European Parliament, the Polish government (with representatives from the Ministry of Finance and Ministry of Foreign Affairs) as well as civil society representatives from both within and outside the EU.

Piotr Trzaskowski, Bankwatch's Climate and energy coordinator, set out the problematic use of the 'energy security' concept, a deceptive term that is increasingly being used to justify environmentally and socially harmful energy projects.

Energy security is being rolled out as a justification for investing huge sums of European public money into private mega projects such as the Nabucco gas pipeline which, according to Trzaskowski, "does not guarantee benefits for local people. This is a development model that strengthens mainly multinational oil companies and undemocratic governments."

Dr. Zbigniew Karaczun from the Polish Climate Coalition pointed out that even though external energy security has been set as an EU priority, it is too one-sided and not properly defined. Energy security, as defined in the EU's energy policies, fails to consider the complexity of the problem of energy supply for the EU – according to Dr. Karaczun, we should not be satisfying our energy needs at the cost of harming the environment and supporting fossil fuel-exporting totalitarian regimes such as Turkmenistan or Azerbaijan.

Elzbieta Wroblewska from the Polish Ministry of Finance introduced current Polish energy policy goals that prioritise the use of domestic energy and a diversification of resources, including new coal deposits and the introduction of nuclear energy. Even though it appears that Poland's energy policy sits well with the EU's energy priorities, there was no mention of external responsibility for the EU's energy security policies, nuclear energy risks or any mechanism for communication with the public in order to implement the energy policies.

Faouzi Bensarsa, Policy Co-ordinator from the Development and Cooperation directorate of the European Commission, was frank in his assessment, saying that even though the EU ought to be responsible in its external actions, it also should always consider what China, India and USA are doing when it comes to talking about – and acting on – energy security. Mr. Bensarsa stressed that everyone should have access to energy as it is the basis for development. In order to achieve energy security in Europe, Bensarsa also placed a lot of emphasis on supporting education and developing technologies such as carbon capture and storage in developed countries.

In contrast, Nick Hildyard from the UK-based NGO Cornerhouse was sceptical about EU policies – his analysis of the EU's Energy Security and Solidarity Action Plan concluded that the EU energy security rationale will not deliver any kind of security for most people worldwide as, fundamentally, it does not act in solidarity with them. In fact, according to Hildyard, it threatens to leave the majority of Europeans more at risk from disruptions to energy supplies and resource conflicts, more divided socially and economically, and to leave more people, both in Europe and abroad, without access to energy.

Follow-up discussion revealed that the gaps in understanding of energy security are deeply rooted between civil society interpretations and those of officialdom. That consensus on this issue remains as elusive as ever is perhaps not surprising. Building a sustainable, supposedly 'secure' approach to energy that is so open to ongoing critique should, however, be giving EU decision-makers some pause for thought.

Read more: A Bankwatch letter to the editor 'Can the EU import energy and promote democracy?' was published in the September 15th edition of European Voice, critiquing the EU's external energy policy Communication. See: http://www.europeanvoice.com/article/imported/can-the-eu-import-energy-and-promote-democracy-/72018.aspx

King coal set to extend its rule in Poland with the help of the IFIs

If there were any illusions across the EU about the extent of Poland's resistance to the EU climate policy, a reality check came back in June when Poland opposed all the other 26 EU countries and blocked the conclusions of the EU Environmental Ministers Council. In so doing, Poland scuppered the adoption of stricter carbon emissions targets, endorsing the European Commission's 2050 Roadmap calling for a 40 percent cut in carbon emissions by 2030, a 60 percent cut by 2040 and a 80 percent cut by 2050, compared to 1990 levels.

This came as no surprise to Polish NGOs working on energy and climate, as scepticism towards climate change science and outward defiance of the EU climate and energy package had been on the march within the Polish government and mainstream media for months – the EU's climate obligations have been painted as a huge threat to the Polish economy.

The seeds of this rift were planted in November 2009 with the publication of Poland's energy policy up to 2030. This document predicts that final energy demand in Poland will grow by 29 percent by 2030, while final electricity demand is estimated to grow by 55 percent. The share of renewable energy in this final energy demand is to reach at least 15 percent by 2020 and rise marginally to 16 percent by 2030.

At the same time energy produced from nuclear energy is to reach 10 percent of final energy demand in the year 2030. Indeed, 2009 also saw the Polish government launching its nuclear energy programme, with plans to deliver the first nuclear-derived megawatts before 2025. Specifically, Poland plans to build four 1600 MW nuclear reactors by 2030 at two new power plants, with the intention to have the first block ready and running by 2020, though many analysts regard this timeframe to be unrealistic.

The upshot – and the downside – of this is that fossil fuels are very much here to stay in the Polish energy mix: by 2030, a massive 74 percent of final energy demand will be still derived from CO_2 intensive energy sources.

Currently almost 85 percent of electricity in the country is produced from coal – and two thirds of installed coal capacity is older than 30 years, and one third is almost 40 years old. Thus, according to the Public Consultancy Board for the National Programme of Emission Reduction, more than 7 GW of ageing generation capacity (almost 20 percent of total currently installed capacity) will have to be taken out of operation by 2015. Huge investments in energy capacity, therefore, are deemed necessary in order to maintain the current levels of energy generation and to meet the ever-increasing requirements of the EU climate and environmental legislation. The investment costs of required in energy generation and infrastructure in Poland until 2020 range from EUR 41 billion to EUR 98.5 billion.

> “Fossil fuels are very much here to stay in the Polish energy mix: by 2030, a massive 74 percent of final energy demand will be still derived from CO_2 intensive energy sources.”

Yet wouldn't this be an appropriate juncture to step back and make big new commitments to energy efficiency and renewables? While some marginal steps are being taken in this direction, there remains a deep conviction both in the government and among state-owned energy companies that coal will provide the basis for Polish energy production for years to come and that the EU climate and energy package is a danger to the stability of the Polish energy generation system. It is no coincidence that the only two countries that will apply for free CO_2 emission allowances in the 2013-2020 period are Poland and the Czech Republic.

Compounding the situation are glaring legislative gaps. Poland still has no Renewable Energy Law in spite of the requirement to transpose the 2009/28/WE EU Directive by the end of 2010. Meanwhile, the energy efficiency bill, approved by the Polish parliament on the April 15 this year, is a transposition of the EU 2006/32/WE directive and does not go beyond the minimal requirements of the EU legislation. As such the bill fails to provide the necessary incentives or the security to spur investments in energy efficiency for the Polish economy, an economy which strikingly requires three times as much energy as the most energy efficient countries in the EU and twice as much as the EU-27 average to produce the same amount of goods.

Given the scale of the financial needs for Poland's energy sector – and you can consider both the dirty or the clean energy options here – the international financial institutions (IFIs) and the EU funds will play a crucial role in shaping the sector's future.

Both the European Investment Bank and the European Bank for Reconstruction and Development have been involved in financing Polish fossil fuel projects in the past, and in fact in March this year the EIB approved the hard coal CHP in Bielsko Biała, which is estimated to cost EUR 155.9 million – with EIB support for the project expected to total EUR 75.8 million. This despite the fact that the Bielsko Biała plant's environmental impact assessment (EIA) lacks an adequate climate impact assessment and alternative energy sources scenarios (the only one being a zero scenario). There are a number of other flaws in the EIA such as missing information on how the project decreases the carbon intensity of the plant and on the carbon intensity of the energy produced in the existing units as well as the planned ones. Bankwatch has lodged an official complaint with the EIB regarding these oversights.

Financing from Europe's public banks – banks after all that are mandated to further EU goals – can drive energy efficiency and renewable energy projects and thus help Poland make the transition to a resource-efficient, renewables-based economy. Perversely, what we could be seeing taking shape is fairly long-term IFI support that will lock the Polish energy sector into a fossil fuel intensive energy production model and thus endanger the country's fulfilment of the EU's greenhouse gas reduction goals.

Especially now during Poland's presidency of the EU, these worrying trends need to be out in the open and challenged both within Poland and across Europe.

Read more: A detailed overview of Poland's developing obsession with coal is available on the Bankwatch website at: http://bankwatch.org/our-work/projects/coal-fired-power-plants-poland

Behind the curtain at the EBRD's annual meeting in Kazakhstan

This year's annual meeting of the European Bank for Reconstruction and Development that took place in May in Astana was an eerie experience. The Wizard of Oz like setting of the Kazakh capital was a factor in this, but so also was the sense that EBRD representatives and their business guests were engaged in a textbook example of group think: multiple crises continue to grip the world, yet the bankers and the senior decison-makers appear content to stick to a comforting routine.

Evidence of this was discernible in a response from EBRD president Thomas Mirow during his press conference at the end of the annual meeting. Asked by a journalist "How do you interpret the word development in EBRD?", Mirow's comeback was: "Our main focus is certainly on developing the market economy because we are convinced that the market economy serves the cause of people best on the grounds of a necessary political frame opening up to democracy and embedding multi-party systems."

Listening to Mirow, it's not hard to imagine him speaking in 1989 to an audience of eastern European youngsters, just emerging from behind the Berlin Wall with little knowledge of what the world looks like outside state socialist countries. But the EBRD president was speaking in 2011, and he was speaking in Kazakhstan.

Throughout the annual meeting, EBRD officials seemed too wrapped up in congratulating themselves for their excellent year-long cooperation with Kazakhstan to notice that the Central Asian country, ruled since independence in 1991 by Nursultan Nazarbayev, is nowhere near having "a necessary political frame opening up to democracy and embedding multi-party systems".

Earlier this year, President Nazarbayev was again re-elected with the support of 95.54 percent of Kazakh voters. According to the EBRD's own research (part of its Life in Transition 2 study, co-authored with the World Bank) presented in Astana, 64 percent of Kazakh respondents said they would never sign a petition, 75 percent would never take part in boycotts, and 58 percent would never attend a peaceful demonstration.

The flourishing of the market economy is simply not translating into the flourishing of civil liberties and generalised well-being in Kazakhstan, or in other countries in the region.

Those attending the EBRD AGM in Astana would have had to step out of the bubble created especially for them around the palace of independence, peace and harmony, where they were attended by beautiful Kazakh girls wearing ethnic dresses and perfect smiles, and from which they were shuttled back and forth to luxurious hotels in laid-on buses.

They'd have had to go to the outskirts of the capital, and, more importantly, they'd have had to step out of Astana. In the western city of Atyrau (the centre for oil and gas industry in the country, some of it EBRD-sponsored), imposing office towers occupied by international oil corporations dominate the downtown. But gated residential areas and high class apartment high-rises for foreign company employees contrast starkly with those poorer neighbourhoods with muddy streets and outhouses, where a lack of running water is not uncommon.

Prior to this year, EBRD promotion of the market economy in Kazakhstan has meant little else than support for the oil and gas industry (most notoriously, through indirect support for the development of the Kashagan oil field in the Caspian, one of the five largest remaining deposits in the world) alongside financing for Arcelor Mittal, the world's largest steel producer. A disproportionate emphasis on energy and raw material exports is widely considered to be one of the main causes for some countries in Central Asia and the Caucasus contracting 'Dutch disease' – an economic ailment that undermines state economies even as they appear to benefit from a natural resource bonanza.

If this is development in Kazakhstan, even in Thomas Mirow's conception of it, it is coming at a high price. And in a study released last month, the International Monetary Fund notes that the government of Kazakhstan needs to diversify away from the oil sector to spur job creation.

The economic situation is worse in some of the poorer Central Asian countries, such as Tajikistan and Kyrgyzstan, where significant sections of the population are struggling with poverty and malnourishment. Interestingly, during the Astana meeting, as a solution for malnourishment in the region – directly linked to the rise in global food prices – the EBRD suggested the promotion of agri-business to the region's grain exporters, notably Kazakhstan. As the EBRD explained, the rise in food prices is both a problem and an opportunity to be exploited.

While EBRD financial support might help big producers in exporting countries, it is unclear how this is likely to benefit the region's poorest given the broadly recognised connection between the rise of industrial agriculture, on the one hand, and the demise of small, subsistence farming and food price speculation, on the other.

With an announcement in March this year to commit 50 million euros to support a renewable energy financial facility in Kazakhstan, the EBRD is able to come up with commendable initiatives, it's just that these are put in the shade by the dominant nature of other bank prerogatives and investments: a focus on the promotion of market reforms, a trust in markets driving democratisation, a decided emphasis on supporting big energy infrastructure and the favouring of agri-business.

The EBRD annual meeting in Astana concluded with the widely expected announcement that the bank intends to expand into North Africa and the Middle East, starting with Egypt where the EBRD is to play a key role in democratisation and development efforts.

For some North African and Middle Eastern countries – where large segments of the population are poor and hungry due to the destruction of local agriculture, where energy profits have failed to trickle down to benefit the entire population, and where, certainly, existing market economies have not done much for either democracy or social inclusion – to propose the EBRD model of development as a solution might seem like a slap in the face. Whether this is being driven by ignorance or by more perverse interests, the effect is the same.

MORE DEATHS AT ARCELOR MITTAL TEMIRTAU MINE IN KAZAKHSTAN

According to media reports, a fatal gas leak killed two miners on August 21 at the Arcelor Mittal owned Temirtau mine in the Karaganda region of Kazakhstan.

Since 2004, more than one hundred miners have died while working at the Temirtau mine.

Arcelor Mittal has received two loans (total value USD 350 million) from the EBRD (one in tandem with the International Finance Corporation) aimed at improving health and safety practices at its mines in Karaganda.

Read more: Civil society concerns and more background about the effectiveness of these major public loans to Arcelor Mittal can be seen at: http://bankwatch.org/our-work/projects/arcelormittal-temirtau-kazakhstan

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