

CEE Bankwatch Network
Na Rozcesti 1434/6
190 00 Praha 9 – Liben
Czech Republic
Email: main@bankwatch.org
http://www.bankwatch.org

Bulgaria:
Centre for Environmental Information
and Education (CEIE)

Za Zemiata, For the Earth

Croatia:
Green Action

Czech Republic:
Centrum pro dopravu a energetiku
(CDE)

Hnuti DUHA

Estonia:
Estonian Green Movement-FoE

Georgia:
Green Alternative

Hungary:
National Society of Conservationists -
Friends of the Earth Hungary (MTVSZ)

Latvia:
Latvian Green Movement

Lithuania:
Atgaja

Macedonia:
Eko-svest

Poland:
Polish Green Network (PGN)

Russia:
Sakhalin Environmental Watch

Serbia:
Center for Ecology and Sustainable
Development (CEKOR)

Slovakia:
Friends of the Earth - Center for
Environmental Public Advocacy (FoE-
CEPA)

Ukraine:
National Ecological Centre of Ukraine
(NECU)

CEE Bankwatch Network's mission is
to prevent environmentally and
socially harmful impacts of
international development finance,
and to promote alternative solutions
and public participation.

TO: EBRD Board of Directors

European Bank for Reconstruction and Development

One Exchange Square
London EC2A 2JN
United Kingdom

9 December, 2014

Subject: 150 million euros for Naftogaz pipeline modernization by-passing bank's
safeguard procedures

Dear Members of the Board,

This week on December 10, 2014 you are about to approve 150 million euros loan to NAK Naftogaz Emergency Pipeline Upgrade and Modernization project (project no. 42608). We would like to draw your attention that this **project has not yet pass through all environmental and social procedures, both on national level and within the bank's own requirements**. Approval of this project by the EBRD Board this week would lead to breaches of the bank's safeguard policies, including on information disclosure, and would send wrong signal to Ukrainian government about the bank's standards being potentially lowered down for projects in Ukraine.

Violations of Public Information Policy prescriptions

The Project involves an upgrade of the existing Romny compressor station and a replacement of 119 km of the existing gas pipeline. The project's PSD lacks information on its location mentioning only that "the longest section is approximately 33 km and therefore does not fall under Annex A of the EU EIA Directive".

The project's PSD for NAK Naftogaz Emergency Pipeline Upgrade and Modernization has been released on November 11, 2014¹, which is only 30 days before target Board date. According to EBRD's Public Information Policy (PIP), PSDs for public sector projects should be released at least 60 calendar days before the Board's discussion².

Unfinished environmental and social due diligence

The project's PSD says that "The national EIA studies for the four sections are part of the Project Design Documentation, which is currently at varying stages of the national environmental approval and permitting process. It is expected that the majority of potential environmental impacts will be addressed in such documents, which will need to be confirmed through the review of relevant reports".

1 <http://www.ebrd.com/work-with-us/projects/psd/nak-naftogaz-emergency-pipeline-upgrade-and-modernisation.html>

2 EBRD PIP, Section 3.1.4

The project is being co-financed by a parallel loan from the EIB. Disclosed on October 3rd, 2014, the project's Environmental and Social Data sheet available from the EIB website³ indicated **that national EIAs are finalized for only two pipeline sections and clearly identified gaps in national EIAs** with regards to both the national scope and the EU EIA requirements:

“At this stage the EIAs for two pipeline sections have been finalized according to Ukrainian law and approved by the relevant authorities. They do not identify areas of concern or significant residual impacts on sites of nature conservation. The review of these EIAs resulted in the conclusion that, with regard to local law, the scope sometimes appears to a certain degree limited, but accepted by the competent authorities. The EIAs do not demonstrate involvement of the public in the process”.

These bits of information suggest that as of October 2014 the project was not yet fully in line with the EBRD's Environment and Social Policy (ESP) as **it did not meet all the requirements of national law**. It also revealed poor quality of prepared EIAs.

Improving corporate governance, environmental, social and health & safety practices at Ukrtransgaz is among expected transition impacts of the project. It seems rather unclear how this would be achieved if the bank would approve project with unfinished ESDD and only 30 days after PSD disclosure, thus potentially breaching at least two of its own policies – Environmental and Social Policy (ESP) and Public Information Policy (PIP).

While we understand the need to replace the old corroded gas pipes to increase the efficiency and safety of gas transportation, we see no urgency in a way that would justify breaching of the bank's policies and undermining the bank's standards. We therefore ask the Board of Directors **to postpone discussion and approval of this project until ESDD is completed but not less than for another 30 calendar days as per the bank's PIP**.

Finally, we would like to kindly draw to the attention of the Members of the Board, that despite deadly situation in the country, the Ukrainian society is striving for processes in the newly elected parliament and the new government to be transparent and strictly in line with the law and procedures, as this is the only way to start genuine transformation of the country and renouncement of the old governing models that led to current severe crisis. It would be highly regrettable to indicate to Ukraine that international partners, such as the EBRD, may “close their eyes” to procedural non-compliances and gaps in quality preparations of the decisions and breach of their own policies in a pursuit of investments fast-tracking.

Sincerely,



Mark Fodor,
Executive Director