To: the Board of Directors of the International Finance Corporation
From: International Civil Society Organizations
Re: Potential Financing of Nabucco Pipeline by IFC
CC: Rachel Bayly and Susan Rzemien, US Department of Treasury; President Thomas Mirow, EBRD; President Robert Zoellick, World Bank; Meg Taylor, CAO

January 20, 2011

Dear Members of the Board:

We have learned that the International Finance Corporation is considering financing the Nabucco Pipeline project, which aims to bring natural gas to Europe via a pipeline extending from Turkey to Austria—traversing approximately 3.5 thousand kilometers of territory. Among the stated goals of the project are provision of "energy security" to Europe, and freeing Europe from its dependence on Russia for natural gas and oil. The proposed investment by the IFC is 800 million euro.[i]

Should the IFC decide to finance the Nabucco Pipeline project, it risks repeating the serious economic, environmental, social and human rights mistakes associated with the Baku Tbilisi Ceyhan (BTC) and Chad-Cameroon pipeline projects and involving the World Bank Group in another highly problematic, politicized and economically and environmentally unsustainable project.

Given the enormous problems connected with both of these past pipeline projects and the potential to repeat them if the IFC were to finance the Nabucco project, **we, the undersigned, request that the Board of Directors officially consider the lessons learned from mistakes at Chad-Cameroon and BTC as part of the assessment process of the Nabucco project.**

We request that the office of the CAO, in its advisory capacity, conduct an analysis of problems associated with the Chad-Cameroon and BTC pipelines in order to provide the IFC and the Board of Directors with a clear understanding of the potential risks associated with Nabucco.

We request that the Board of Directors, in its assessment of the viability of the Nabucco Pipeline project for financing by the IFC, **require that supply countries as well as the transit countries be included in all environmental and social studies of the impact of the project. Reviewing the entire supply chain for the pipeline is essential to any legitimate evaluation of the Nabucco Pipeline project.**

We urge the Board of Directors to consider commissioning an external and independent analysis of the pros and cons of the Nabucco project in addition to reviewing the management's assessment of Nabucco.

Background on Nabucco

Although the pipeline itself would cross from Turkey to Austria, supply for the project is currently predicted to come from Azerbaijan, Iraq and Turkmenistan, with Turkmenistan holding the largest reserves. Each of these countries is unstable, anti-democratic and corrupt. Azerbaijan is notorious for its repressive treatment of journalists, its corrupt government, and its lack of transparency. It also has an unstable relationship with many of its neighbors, including Iran, Turkmenistan and Armenia. Iraq is a country at war, and highly unstable. Turkmenistan is one of the most repressive regimes in the world with a completely nontransparent government, unknown numbers of political prisoners and an unrivaled presidential cult of personality. Turkmenistan's government is particularly problematic, with the total absence of a market economy, democratic institutions, freedom of the press, and governmental financial transparency. For the IFC, it is a risky investment environment with no meaningful financial accountability or government transparency and one in which the Executive exercises complete control of virtually all aspects of government.

The importance of Turkmenistan and Azerbaijan for the project was recently confirmed by a high level EU delegation visit to the countries. "Certainly, our goal is to have the clear commitment of those countries regarding the Southern Corridor and including, of course, Nabucco," said President of the EU Commission, Jose Manuel Barroso.[ii]

In order for Turkmen gas to reach Nabucco, an additional gas pipeline, the Transcaspian, would need to be built to bring natural gas from Turkmenistan to Azerbaijan. This proposed pipeline raises numerous concerns. The legal status of the Caspian Sea (lake or sea) is an unresolved and highly contentious issue that has direct ramifications on the ownership rights assigned to each of the littoral states for portions of the sea and its resources. Until the legal status is determined, consent for construction by the Caspian states, particularly Iran and Russia, is likely to be difficult to obtain. The risk of increased militarization of the Caspian region is high if discussions of the Transcaspian pipeline are undertaken while this question is still open.

In addition, the south Caspian is a highly tectonic region, with a significant risk of earthquakes, especially if the seabed were disturbed.[iii] The portion of the sea between Azerbaijan and Turkmenistan, in which the pipeline would be constructed, has a depth of over three thousand feet, complicating any construction efforts along the seabed.[iv] The south Caspian is home to numerous endangered species, including the Caspian Seal and the Beluga Sturgeon, which would be placed in serious risk if a Transcaspian pipeline were built.

The IFC's Pipeline Investment History

In the past decade, the IFC has made significant—and troubling—financial investments into oil and gas development and transport; specifically, the Chad-Cameroon and Baku-Tbilisi-Ceyhan pipelines. These projects include Karachaganak, Uzen and Azer-Chirag-Guneshli in the Caspian region. The IFC provided $200 million to the Chad-Cameroon pipeline and $250 million to Baku-Tbilisi-Ceyhan. Both pipeline projects were dependent on previous or concurrent financing of oil production—the Doba fields in Chad and the Azeri-Chirag-Guneshli (Azerbaijan), and Karachaganak (Kazakhstan) fields in the Caspian in order to ensure pipeline profitability. Although the IFC failed to consider Kazakh oil in its environmental and social assessments of the BTC pipeline, by obtaining documents from the US government under the Freedom of Information Act, we have learned that although the IFC did not finance BTC until 2003, as early as 2001, the BTC countries (Azerbaijan, Georgia and Turkey)—with a US government witness—

signed an agreement with Kazakhstan to supply oil to BTC. We know that in the case of BTC, the IFC did not consider Kazakh oil in its evaluation, meaning that the environmental threats posed from transporting oil from Kazakhstan to Azerbaijan via the Caspian Sea were not included in the environmental and social impact assessment.

In the cases of both Chad-Cameroon and BTC, the IFC claimed that the projects would benefit not only the governments of the countries involved, but also the communities around the projects. As is well documented, both projects have been rampant with corruption, had numerous false claims by the companies, and environmental, social and human rights violations. Twenty-six complaints were filed with the Office of Compliance/Advisor, Ombudsman (CAO) of the World Bank Group by communities along the BTC pipeline. Pipeline coating problems led to serious leaks along the pipeline route.[v] Civil unrest in Turkey was exacerbated by the construction of the pipeline, and national parks in Georgia and Azerbaijan were negatively impacted by the project. Furthermore, Azerbaijan's corrupt and anti-democratic government has become increasingly authoritarian in the years following the construction of BTC with the arrests and murders of journalists, civil society leaders and others who speak out against the regime.

The problems with Chad-Cameroon were more widely published as the governments used oil revenues to finance the countries' military regimes while communities of people living along the pipeline slipped further and further into poverty. The project was so problematic that the World Bank finally withdrew its support in 2008, although the IFC financing of Exxon Mobil's investment in the project continued.[vi] An evaluation of the project by the World Bank Group's Independent Evaluation Group (IEG) concluded that the project had not achieved its fundamental objective of reducing poverty and that indeed Chad's oil revenue windfall "…was associated with a resurgence of civil conflict and a worsening of governance."[vii]

The IFC's Investment Claims

When the IFC was deciding whether to finance both Chad-Cameroon and BTC, there was significant opposition and loudly expressed concern from civil society. Numerous comments were sent in from NGOs around the world articulating environmental, social, political and human rights concerns. The IFC financed both projects, stating that it believed the benefits of the project would outweigh concerns.

During the 2003 public comment period for the BTC project, the IFC stated, "IFC has worked intensively over the past 2.5 years with BTC and Phase 1 to ensure that the projects are designed, built and operated to the highest international standards in order to comply with IFC and World Bank safeguard policies and guidelines."[viii] Unfortunately, problems with the pipeline have continued. As recently as December 2010, the pipeline was shut down due to leaks in Turkey.[ix]

Financing the Chad-Cameroon pipeline resulted in massive human rights violations as well as the strengthening of a corrupt, cruel and violent regime. These concerns were articulated by civil society organizations well in advance of the IFC/World Bank financing of the project. A 1999 report by NGOs, including Environmental Defense Fund, expressed concerns and outlined problems including the lack of a proper financial management for the Chadian government.[x]

In 2003, in response to civil society concerns about the financing of BTC, IFC stated, "IFC feels strongly that these projects are sound. We feel that we have strong project sponsors that take environmental and social issues seriously. We believe that the projects have been developed and will be implemented to the highest international standards (including IFC's own). But, we also realize that there will be numerous implementation challenges as the projects progress. This requires ongoing monitoring, supervision and adjustments/improvements when needed. It also requires IFC to continue listening to local communities and civil society and answering questions when they arise."[xi]

Unfortunately, we see little evidence this is the case on the part of the IFC with either of these projects.

The Threat that History will Repeat Itself

As the CAO stated in its 2010 assessment of the Wilmar palm oil case in Indonesia, "the adoption of a narrow interpretation of the investment impacts—in full knowledge of the broader implications—is inconsistent with IFC's asserted role, mandate of reducing poverty and improving lives, and a commitment to sustainable development."[xii]

We urge the Board of Directors to carefully review the Nabucco Pipeline project, taking into consideration the lessons from Chad-Cameroon and BTC and our specific suggestions made on page one of this letter.

We look forward to hearing from you.

Sincerely,

Kate Watters, Crude Accountability, USA

Korinna Horta, Urgewald, Germany

Piotr Trzaskowski, CEE Bankwatch Network, Central and Eastern Europe

Said Yakhyoev, Bank Information Center, USA

Centre for Environmental Information and Education (CEIE), Bulgaria

For the Earth (Za Zemiata), Bulgaria

Centre for Transport and Energy (CDE), Czech Republic

Hnuti DUHA, Czech Republic

Estonian Green Movement-FoE (ERL), Estonia

Green Alternative, Georgia

National Society of Conservationists—Friends of the Earth Hungary, Hungary

Latvian Green Movement, Latvia

Argaja, Lithuania

Eco-sense, Macedonia

Polish Green Network, Poland

Center for Ecology and Sustainable Development (CEKOR), Serbia

Friends of the Earth-Center for Environmental Public Advocacy (FoE-CEPA), Slovak Republic

National Ecological Centre of Ukraine (NECU), Ukraine

Martina Weitsch, Quaker Council for European Affairs, Belgium

Neil Tangri, USA

Mirvari Gahramanli, Oil Workers' Rights Protection Organization Public Union - Azerbaijan

Elena Gerebizza, Campagna per la Riforma della Banca Mondiale (CRBM), Italy

Vadim Novopashin, Saving Taman!, Russia

Michelle Chan, Friends of the Earth, USA

Olga Zakharova, ISEU Forest Campaign, Russia

Farid Tukhbatullin, Turkmen Initiative for Human Rights, Austria

Leanne Grossman, USA

Joanna Levitt, International Accountability Project, USA

Yuki Tanabe, Japan Center for a Sustainable Environment and Society, Japan

Nick Hildyard, The Corner House, United Kingdom

Huub Scheele, Both ENDS, The Netherlands

Albena Simeonova and Borislav Sandov, Foundation for Environment and Agriculture, Bulgaria

Andrey Zatoka, Askhat Kaiumov, Natalia Kravchuk, M. Ruzina, Sergey Simak, International Socio-Ecological Union

Natalie Bridgeman Fields, Accountability Counsel, USA

Igor Hadjamberdiev, Toxic Action Network, Central Asia

Gavin Hayman, Global Witness, United Kingdom

Bjorn Engesland, Norwegian Helsinki Committee, Norway

[i] http://www.ifc.org/ifcext/media.nsf/Content/SelectedPressRelease?OpenDocument&UNID=AD85C5A727281053852577A50078DDFF

[ii] http://centralasianewswire.com/Turkmenistan/Top-EU-officials-to-visit-Turkmenistan-Azerbaijan-to-secure-Nabucco-gas/viewstory.aspx?id=2846

[iii] (http://books.sipri.org/files/books/SIPRI01Chufrin/SIPRI01Chufrin04.pdf)

[iv] http://www.lycos.com/info/caspian-sea.html

[v] http://www.bankwatch.org/newsroom/releases.shtml?x=1968829

[vi] http://www.bicusa.org/en/Article.3892.aspx

[vii] Independent Evaluation Group, "The World Bank Group Program of Support for the Chad-Cameroon Petroleum Development and Pipeline Construction," Report № 50315, The World Bank Group, November 20, 2009, page viii.

[viii] Page 4, http://www.ifc.org/ifcext/btc.nsf/AttachmentsByTitle/ESIAPublicCommentsResponse/$FILE/BTC+-+IFC+Reply+to+comments.pdf (accessed 1/3/2011).

[ix] http://online.wsj.com/article/BT-CO-20101207-710924.html

[x] http://www.edf.org/documents/728_ChadCameroon_pipeline.pdf

[xi] http://www.ifc.org/ifcext/btc.nsf/AttachmentsByTitle/ESIAPublicCommentsResponse/$FILE/BTC+-+IFC+Reply+to+comments.pdf

[xii] http://www.cao-ombudsman.org/cases/document-links/documents/CAO_Audit_Report_C_I_R6_Y08_F096_ENG.pdf