ISPAT-KARMET STEEL WORKS (MITTAL STEEL TEMIRTAU) PROJECT

Introduction

In 1997 EBRD approved credit for the “Ispat-Karmet Steel Works (Mittal Steel Temirtau or “MST”) project” (project#3324 http://www.ebrd.com/projects/psd/psd1997/3324.htm), to finance the large metallurgical factory and coal extraction from underground mines. The ecological category of this project is “A”. The EBRD is providing a long term loan of $54 million (44 million Euro), which should be repaid by November 2006. The total cost of the project is $294 million (234 million Euro).

The main objectives of the project are to:

(i) restore productive capacity and improve efficiency in the steel mill and coal mines; and
(ii) implement environmental action plans that would improve environmental and health & safety impacts and bring the company into compliance with World Bank environmental guidelines.

This project is considered by EBRD to be one of its most successful in Kazakhstan, and one which has improved the environmental situation in Temirtau. Despite the Bank’s accolades for the project, however, Ispat-Karmet Steel Works continue to be one of the largest polluters in the country, emitting 95% of the city’s total harmful pollutants into the atmosphere. The city of Temirtau has the second highest level of atmospheric pollution in Karaganda Oblast' and is ranked 6th in all of Kazakhstan.

Problems of the project:

1. Privatization. EBRD rendered assistance in the first stages of privatization of the steel works. The project has a high demonstration effect as the first turn-around and privatization of a large, fully-integrated former monopoly in Kazakhstan.

According to the EBRD’s Environmental Policy document (Articles 16 & 21), projects should be conducted “in accordance with the requirements of national legislation.” However, the results of an investigation conducted by the Prosecutor General of Kazakhstan show that during the contractual process of privatization, the acts of Kazakhstan legislation were violated. The contract contains an agreement that no new environmental laws will apply to the steel works for 10 years from the date of privatization of the steel works (sale to Mittal Steel). Furthermore, Mittal Steel does not have to pay any taxes or fees for pollution. The Mining Branch of Mittal Steel does not have to conduct land reclamation activities on lands which were exploited for mining activities before 1996 (such lands make up the majority of contaminated lands).

2. Implementation of Environmental Action Plans. Within the framework of the MST project, three Environmental Action Plans (EAPs) for the steel works, the power plant TEC-2 and the coal mines were developed in agreement with Ispat Karmet. The management of Ispat Karmet is committed to the implementation of the EAPs, through which the facilities will gradually reach full compliance with Kazakh environmental standards and with World Bank environmental guidelines.

However, information presented by the Ministry of Environmental Protection (MEP) of Kazakhstan shows that the environmental situation in the city of Temirtau has declined, which makes and achievement of positive outcomes from the project doubtful.

- Over the course of the past eight years, the emission of specific air of pollutants in the steel plant and power plant have been reduced from 107 to 64 kg per ton of steel.

However, this ratio of pollutants to ton of steel can not be seen as a positive impact on the environment. Despite the efficiency improvements embodied in this ratio, according to MEP data, there has been an overall increase in air pollutants from the steel plant and power plant over the past eight years, which of course has a negative impact in the environment. This increase in air pollutants overall is the result of an increase in production and new activities at the steel works and power plant.
Coal mining in Kazakhstan is accompanied with the release of large quantities of methane gas, which equal around 300 million m³ per year. Its capture and use is a major environmental problem. With the help of the IFIs, Mittal Steel has developed a methane drainage program and reports that last year it resulted in the capture and utilization of 56 million m³ of methane (about 18.6%). However, these figures contradict information from MEP. MEP reports that only 3% of methane has been utilized\(^5\).

The volume discharge released into the Samarkandskiy reservoir was reduced by 52%, and discharge into the Nura River was decreased by 36%. The efficiency of ammonia removal was increased from 25% to 97.7% and petroleum product removal from 90% to 94.8%, and is within the allowable discharge standards set by the EU, WB and Kazakhstan.

However, according to MEP, water quality of the Nura River and Samarkandskiy reservoir, which make up the primary source of water for the steel works, are categorized as having a “medium pollution” level. Furthermore, concentration levels in excess of allowable limits for petroleum products, iron, copper and an increased mineralization level of the water were observed\(^5\).

About 62% of solid wastes are recycled.

However, Mittal Steel Timertau is the single largest polluter of land in the oblast. The level of waste recycling is low due to mining activities, the discharge of mineralized mine water, violation of industrial planning and operations, trash\(^5\).

There are a few actions of EAPs which are behind schedule. It is unclear, if these actions are fulfilled.

3. Lack of Access to Information

Within the framework of the project, a Public Information Plan (PIP) was developed, the main objective of which was to make available and distribute information to the public about the environmental impact of the project and to take into account public opinion\(^6\).

The EBRD claims that the plan, which consists of distribution of information through local mass media and public meetings, was fully carried out and that the general public for the most part supported the project and project components. However, according to several inquires, MST is considered the most un-transparent company in the Republic of Kazakhstan. The results of several questionnaires conducted show that the public does not have a clear understanding of the project.

The EBRD’s Environmental Policy (Annex 2, Articles III, IV) document states that project sponsors should make all information about environmental impact assessments available to the public for the entire length of EBRD’s participation in the project. However, Green Salvation (GS) requested information and documentation concerning environmental aspects of the project several times. In reply, GS received notification from the head of the environmental department of MST that “We do not have information about EBRD project 3324”\(^7\). Even EBRD’s country office in Almaty did not have the requested information – a fact acknowledged by EBRD’s head office in London.

The public and interested parties have not had the opportunity to keep up to date about the implementation of the project on EBRD’s web-site, since the information posted on the site dated back from 1997. Updated information about the project was posted on EBRD’s web site only nine years later (in 2006). Such a lack of access to information about on-going project activities contradicts EBRD’s Environmental Policy document (Article 28).

The EBRD needs to make clear what its responsibilities are for providing access to environmental information and to clarify the process by which such information can be accessed. The public should have access to environmental documentation on the Bank’s projects, including: environmental impact assessments, environmental action plans, reports on environmental activities carried out, and environmental indicators of projects. Green Salvation conducted correspondence with various departments of the Bank over a period of five months in order to receive environmental documentation on the project.

4. Accidents, Work Conditions, and Low Pay

Occupational health and safety has improved significantly and accident rates at the steel plant and power plant are close to international industrial average".
Despite the Bank’s positive assessment of the health and safety record of the project and the obligations of the Bank to ensure that all projects it funds operate in accordance with “good industrial practices and standards” (Environmental Policy document Articles 20-21), Mittal Steel has a significantly high level of accidents, very difficult working conditions and low pay. Days off due to accident or illnesses have risen significantly (1.6 times) from 1995 to 2006. During 2005 there were several serious accidents\(^8\) at the steel works. Over the course of the past 10 years, 10,000 workers at the steel works were out and 12,000 at the mining department. As a result of these reductions, work in mining operations on each individual worker increased two times over, while pay rates\(^9\) remained the same. The very fact that the steel works, power plant and mining operations were sold without responsibility for prior debt or responsibility for support in the social sector does not comply with the stated position of the company in its Code of Business Conduct\(^10\).

5. Social and Environmental Problems of the City. The impact of transition has stabilized employment and encouraged the establishment of small and medium sized enterprises in the region.

However, many social and environmental problems exist in the city of Temirtau, including: a large proportion of the population living below the poverty line and a high level of unemployment. Recent years have seen a worsening of social demographics: reduced birth rates and an increase in morbidity rates. Temirtau has the highest rate of HIV-AIDS infection in all of Kazakhstan\(^11\)

Conclusions:

1. The Bank’s position is that by investing financing in this project, which supposedly reduces the use of natural resources and pollution, it is helping the environment. Article 4 of its Environmental Policy document dictates that the Bank pays special attention to requiring appropriate and efficient mitigation measures on projects which may otherwise threaten the reputation of the Bank. Furthermore, the Article 20 of the EBRD’s Environmental Policy document states that projects should support and advance good environmental and health and safety standards throughout the region. However, an analysis of the project carried out at MST reveals the opposite – working and environmental conditions have worsened.

2. Article 26 of the Bank’s Environmental Policy document states that public consultation is an important way of improving the quality of EBRD-financed projects. However, the document does not make clear the procedures for taking public opinion into account in the process of decision making. The Bank needs to make this process clear and demand that the process is followed by project sponsors. The MST project demonstrates a case where the public did not have the possibility to influence project activities.

3. The lack of clear criteria for measuring change in the environment as a result of Bank-financed project activities means that it is not possible to evaluate a given project’s effectiveness.

4. The obligation to monitor the project goes until credit has been repaid (to the end of 2006). In accordance with the EBRD’s Public Information Policy document, openness and transparency are of principal importance in order for the Bank. However, to this day the public has not had the opportunity to evaluate the results of the project and opportunities to evaluate how nature projection measures have been carried out have been limited. Lacking this, it is not possible to evaluate to what degree the Bank’s activities support sustainable development.

5. Several activities planned under the Environmental Action Plan(s) for the project were not carried out, which represents a violation of the Bank’s obligations.

6. In accordance with the Bank’s Environmental Policy document (Article 27) the Bank considers monitoring an important aspect of the Bank’s project implementation process. Public participation in monitoring would allow the Bank to receive an objective evaluation of its projects. The Bank needs to clearly state this in its Environmental Policy.

7. In accordance with the Bank’s Public Information Policy document, the promulgation of information is the responsibility of the client. The client is obligated to widely distribute information about environmental
aspects of the project, about the results of the environmental impact assessment, and to distribute information on the major milestones of the project. How does the Bank monitor and ensure that this process is conducted adequately?

8. Cooperation between EBRD and Mittal Steel is continuing. Mittal Steel owns factories in 16 countries around the world. Taking a sample of the activities of these factories shows that the company violates local labor and environmental legislation. The main goal of the company is to reduce the costs of production, which is carried out by reducing the workforce. In order to be competitive in the world market, new capital investment is required. Environmental components of projects financed by the EBRD should be part of the overall plan of industrial activity for the project. However, the Mittal Steel – Krivoi Rog project in Ukraine does not contain any environmental components at all. Furthermore, the company halted financing of measures in accordance with environmental norms required in Ukraine.

News reports have for months followed the growing protest by tribal and political organizations in the Kolhan region of Jharkhand, India, where Mittal Steel and other firms plan widespread displacement of local inhabitants, thus also depriving them of their livelihood. In economic terms, the current residents of these sites are being forced to bear a significant part of Mittal’s costs, thus allowing Mittal to under price its steel. Last June, Mittal Steel won the Sustainable Catastrophe Award at an event hosted by the Center for Civil Society and Groundwork in South Africa. Support for such types of projects present serious threats to the business reputation of the Bank and raise doubts about the Bank’s proclaimed commitment to sustainable development and environmental responsibility.

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10 http://www.ispat.co.uk/
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