

**Why the EIB should not finance the Southern Gas Corridor**

24. January 2017

Dear Board of Directors,

We are writing to you once again in regards to the Southern Gas Corridor (SGC) that is supposed to bring gas from Azerbaijan to Italy through a series of pipelines stretching over 3,500 kilometres, crossing seven countries and involving more than a dozen major energy companies. The pipeline is supposed to import 10 billion cubic meters of gas per year (bcm) into Europe. Costs so far are estimated at US\$45 bn.

The realisation of a project of this size largely depends on public support. Therefore several major public banks have been asked to help finance the Southern Gas Corridor's different sections. In December 2016 three public banks approved loans: the Asian Development Bank (1 bn USD for the Shah Deniz gas expansion project), the World Bank (800 mio USD for TANAP, the Turkish leg of the pipeline) and the Asian Infrastructure Investment Bank (600 mio. USD for TANAP). All three banks chose to ignore severe human rights problems in Azerbaijan and Turkey. The EIB, which is currently considering a EUR 2 bn loan for the Trans Adriatic Pipeline (TAP) and a EUR 1 bn loan for TANAP, should not follow that path but rather assess wisely the reputational and financial risks of getting involved in the Southern Gas Corridor.

**The situation in Azerbaijan and membership of EITI**

Freedom of speech and basic civil rights have been threatened in Azerbaijan for several years now. Given the severity of the crackdown against civil society in the country, Azerbaijan has been downgraded within the Extractive Industries Transparency Initiative (EITI) in 2015 from full membership. This has been confirmed by the decision in October 2016 of the EITI Board to not restore Azerbaijan's status in the Initiative. The Board set Azerbaijan a four-month deadline to reform restrictive legislation that currently paralyses the operations of civil society in the country. Failure to comply with the corrective actions set out by the EITI Board will lead to the country's suspension from the organisation.

For the EIB, as a longstanding supporter and promoter of EITI, the issue of Azerbaijan's EITI membership should be another indication that the project is not being developed in line with the standards the bank professes to adhere to and thus refrain from financing it. In a response from EIB VP Vapaavuori to civil society raising concerns on this project, the VP stressed in December 2016 that both TANAP and TAP, are not located in Azerbaijan. Considering that the pipelines are owned by the Azeri state owned company SOCAR to 58% in the case of TANAP and to 20% in the case of TAP and that the pipelines transport gas from Azerbaijan, Vapaavuori's argument falls short of the reality of the pipeline. SOCAR and BP are de facto the main sponsors of the project. The EIB itself stresses in its due diligence handbook very clearly that the environmental and social impacts of projects should be taken into account in the entirety of the project, rather than slicing projects into various sections

supposedly “independent” from one another. Assessing TAP or TANAP without considering Azerbaijan as part of the picture would be a violation of EIB standards, and a moral mistake.

### **The situation in Turkey and the Trans Anatolian Pipeline**

The situation for civil society, freedom of speech and independence of media deteriorated massively in Turkey throughout 2016, especially after the attempted coup in July. Under continued martial law, arbitrary arrests of journalists, academics and human rights activists are frequent. The Council of the EU expressed in November 2016 its grave concern over those developments.<sup>1</sup> Under the given circumstances it has been impossible for civil society to engage in genuine public participation around this 1800 km long pipeline. Doing proper due diligence on TANAP is therefore impossible for the EIB at this stage. As far as we are aware the TANAP project documents do not include any analysis of the impact of Turkey's imposition of martial law and do not reflect the current and rapidly evolving conditions in Turkey. A reassessment of the project under the current situation is therefore critical and should be required, especially given the fact that in its operations, the EIB is bound by the EU treaties and the European Charter of Fundamental Rights to ensure that none of its operation further human rights violations.

### **The problematic situation in TAP's transit countries**

The Trans Adriatic Pipeline (TAP) is supposed to pass through Greece, Albania and reach Italy after crossing the Adriatic Sea. In all three countries the construction is met with resistance. In **Greece's** Kavala municipality, land of individual farmers and public property of the municipality of Doxato has been destroyed by bulldozers of TAP subcontractors without affected people and local institutions being informed or consulted beforehand. Farmers have been complaining early to EIB about this situation but did not receive yet any satisfactory answer so far from neither the Complaints Mechanism nor the EIB Staff. It took more than one year for the EIB staff to visit the complainant, and no further steps have been taken yet by the EIB or the Complaint Mechanism after the visit. This is concerning and upsetting for people who suffered severe damage to their property in violation of Greek law.

In **Albania** TAP will impact approximately 80 communities whose livelihoods are based to a large extent on agriculture. While people depend on the land, the TAP AG consortium has not properly consulted them. Affected households were told that they have to give up their land for the pipeline construction and that they will be compensated without mentioning they have the right to negotiate the amount or disagree. In addition, people opposing giving their land away have been threatened with expropriation. So far eight complaints around those resettlement issues have reached the EIB Complaints Mechanism. We expect the EIB to seriously address them and the above-mentioned concerns.

In **Italy** the protests against TAP stretch across the Lecce region where various public authorities, including local mayors, oppose the pipeline. Indeed, several environmental conditions for starting the construction works have not been fulfilled despite the fact that they are conditions for the project's environmental permit becoming valid. Additionally, there are several appeals pending in administrative courts. Various parties filed a request for a formal investigation into TAP AG, they are now waiting any time for a decision by the judge on a preliminary investigation in Lecce. Like in the case of Albania and Greece, local citizens also filed a complaint to the EIB Complaints Mechanism. For the time being, the strong resistance of local administration and inhabitants has stalled the project.

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<sup>1</sup> [http://www.consilium.europa.eu/press-releases-pdf/2016/11/47244649919\\_en.pdf](http://www.consilium.europa.eu/press-releases-pdf/2016/11/47244649919_en.pdf)

### **Dubious economic viability of the Southern Gas Corridor**

Gas demand in Europe has been declining in recent years. This questions the need for building additional gas infrastructure, a finding that has been underlined by the study “Energy Union Choices: A Perspective on Infrastructure and Energy Security in the Transition” published in July 2016. The study underlines as finding number 1: *“Europe’s current gas infrastructure is largely resilient to a wide range of demand futures and extreme supply disruption cases, with the exception of some countries mostly in South Eastern Europe under specific circumstances. Under normal market conditions, Europe does not need any new import capacities into Europe or cross-border gas infrastructure between Member States to secure supplies.”*<sup>2</sup> Putting billions of Euros into a pipeline, which might not be necessary and therefore not be used to full capacity but rather become a stranded asset, is not the best use of public money for a bank that values its AAA rating.

### **Energy diversification and Russian gas into Southern Gas Corridor**

One important argument for promoting the Southern Gas Corridor has always been that it helps diversify Europe’s gas supply away from Russia. However this argument is questionable. A study from the Oxford Institute for Energy Studies from July 2016 found that the gas reserves of Azerbaijan are not sufficient to feed the pipeline for its lifetime and more gas will have to be imported from other countries.<sup>3</sup>

Ironically in the light of the diversification-away-from-Russia argument, one of these countries is likely to be Russia: Turkey and Greece have both signed bilateral agreements that allow Gazprom gas to be transported through the Southern Gas Corridor. In addition the deal signed in October 2016 between Turkey and Russia on the Turkish Stream shows that one section of Turkish Stream will be in a position to connect to the planned junction at Ipsala-Kipoi of the Trans Anatolian pipeline (TANAP) and Trans Adriatic pipeline (TAP). Ultimately this would mean that the Southern Gas Corridor might be built with strong public support to diversify gas supply away from Russian gas, only to allow Russian gas into the pipeline once it is readily built.

### **New gas pipelines not in line with Paris Agreement**

Gas is being portrayed as the cleanest of fossil fuels and thus a transition fuel. However, revised estimates of the global warming potential of methane, methane leaks along the pipeline and the risk of fossil fuel lock-in for decades to come contradict the Paris Agreement. As the climate champion bank the EIB wants to be it should therefore refrain from putting its money into the Southern Gas Corridor.

Dear Directors, the Southern Gas Corridor poses a series of questions around human rights, support for authoritarian regimes, holding up EIB’s own principles, the correctness of the main argument on diversification of gas supply and the economic viability of the project, as well as the question of whether after the Paris Agreement new fossil fuel projects should be supported at all by the EU’s bank. As Board members you should ensure that those concerns are being addressed and that the EIB does not enter into a deal that won’t help the European Union a great deal, while likely becoming a black hole for EU public finance.

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<sup>2</sup> [http://www.energyunionchoices.eu/wp-content/uploads/2016/07/EUC\\_Report\\_Web.pdf](http://www.energyunionchoices.eu/wp-content/uploads/2016/07/EUC_Report_Web.pdf), p.11

<sup>3</sup> “Azerbaijan’s gas supply squeeze and the consequences for the Southern Corridor”, The Oxford Institute for Energy Studies, July 2016

Yours sincerely

## **List of signatories**

350.org

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CEE Bankwatch Network

Counter Balance

E3G

Focus Association for Sustainable Development, Slovenia

Food & Water Europe

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