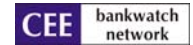




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№ 125-2/28

20.10.2009

Philippe Maystadt, President  
The Board of Directors, European Investment Bank

Copy: EBRD

## **Re: EIB Board discussion of the South Ukraine Transmission Project**

Dear President Maystadt,  
Dear Directors,

From the EIB Board schedule for 21 October 2009, we have recently discovered that the EIB is considering approval of the loan for NEC Ukrenergo for the South Ukraine Transmission Project. Our organisation, as well as other concerned NGOs and individuals, have deep misgivings about the unexpected rush of the EIB in considering this project when currently its environmental impact assessment (EIA) process is still ongoing according to EBRD and Ukrainian procedures, it is still far from being positively completed.

To date this project raises a number of concerns regarding its environmental impacts, its technical and economic justification, transparency as well as its relation to the present political situation in Ukraine. **Therefore the National Environmental Centre of Ukraine (NECU, member group of CEE Bankwatch Network in Ukraine) urges the EIB not to approve the proposed loan to South Ukraine Transmission Project.**

The main reasons and facts that have lead us to address you are the following:

### **Negative environmental impact**

The proposed transmission lines will cross a number of nature protected territories along the planned route in the Zaporizka and Khersonska provinces of Ukraine.

The plans to cross the territory of the Lower Dniپر National Park are extremely troubling. The official decision to create this park was approved by the authorities in 2007, while the initial ideas refer back to the 1920s. Currently the park is passing the final stages before full recognition and establishment. This park aims to protect the unique areas along the last sections of the River Dniپر that remain free from dams – these areas are known for their rich biodiversity and serve as a famous recreation area for people living in the region.

If the transmission line does ultimately cross the park, the required construction activity will significantly decrease its value while the presence of high voltage lines on its territory will seriously disturb the daily lives of its inhabitants, primarily birds who live there and migrate along the Dniپر corridor, using these territories as a breeding and resting place. It should be noted also that industrial activities in national parks are forbidden under Ukrainian legislation – The Law of Ukraine on Nature Protected Areas.

In general, the southern regions of Ukraine are not rich in vegetation. This is why every island of unspoiled

nature is extremely valuable. Regretably the transmission lines are planned to cross nearly every protected area that can be found along the outline route, including nature reserves of national importance such as “Urochische Bilozirske” in Zaporizka province, and of local importance such as “Vodiansky Kuchugury” in Zaporizka province and “Kairska Balka” in Khersonska.

### **“Back in the USSR” project**

This project was originally designed by Soviet engineers before the collapse of the Soviet Union, when Ukraine was part of the Soviet grid and therefore was expected to serve different aims than it is now, when Ukraine is an independent state and its electricity transmission grid is organised in a different way. However, its promoters have decided to re-initiate the project without taking into consideration these changed realities.

According to the Energy Strategy of Ukraine for the period up to 2030, these transmission lines should enable the expansion of the Zaporizka Nuclear Power Plant from 6 to 8 nuclear reactors and facilitate the export of the electricity to Europe. We strongly believe that the EIB as an EU institution should not support such plans of a country that suffered catastrophically from the Chernobyl accident in 1986 and that is still facing serious problems with its nuclear industry, ranging from the unresolved issue of dealing with nuclear waste and spent fuel and the insufficient safety of outdated reactors to the lack of water resources aggravated by the extensive use of water by the national energy sector.

There is no publicly available economic analysis of this project that would justify its necessity, while financial resources are limited both in Ukraine and worldwide and Ukraine's foreign debt is increasing rapidly, bringing the country to the edge of default. This project is blessed by the controversial Energy Strategy of Ukraine for the period up to 2030, a document – it should be pointed out – that was never approved by the Parliament of Ukraine and therefore does not have legal power. Rather this same strategy document has been heavily criticised in Ukraine as well as by outside experts.

According to the project information published by its promoter Ukrenergo company, the transmission lines are needed to provide extra power supply to southern Ukraine, i.e. Crimea and Odessa, and to develop missing output capacity for the Zaporizka NPP (about 700 MW deficit). However, the designed capacity (and therefore the overall project cost) are two to three times higher than what is actually needed to achieve these particular goals. Downscaling the project could very possibly lead to the avoidance of many of the environmental concerns listed above and make this hugely ambitious project much less expensive, with therefore far less burden for the Ukrainian budget and the final consumers of electricity.

### **Public involvement**

We are surprised that the project has been brought for the EIB board's consideration before the completion of the EIA and related public consultations. So far the EIA process according to Ukrainian legislation is in the early stages – it may last for months – while the EBRD's public consultations on EIA are in the middle of the process, with public hearings scheduled for the end of this month.

According to the EBRD's requirements, the public consultations currently being conducted by Ukrenergo, have so far proved to be inappropriate. A recent fact finding mission conducted by NECU to the project site uncovered a number of important flaws – project documentation is not available in designated places and the level of public awareness about the project is very low.

We have already reported such flaws to the EBRD and are looking forward to the bank's reaction. The NECU letter to the EBRD on this matter is available at [http://www.necu.org.ua/wp-content/uploads/necu\\_to\\_ebrd\\_letter\\_on\\_consultations.pdf](http://www.necu.org.ua/wp-content/uploads/necu_to_ebrd_letter_on_consultations.pdf) or can be provided to the EIB on request.

A further recent fact finding mission by NECU has also found low public acceptance of the project from

those who are aware of it and may be potentially affected. The construction of these transmission lines will require the acquisition of agricultural lands and since agriculture is the main economic activity in the region, people may disagree with such plans and actively oppose. We found evidence that the majority of landowners have not yet been consulted regarding compensation. It is also worth mentioning that citizens and even some representatives of local authorities in the town of Kamyanka Dniprovska and the Vodyany village near the Zaporizka NPP are already suffering from the daily operations of the NPP and are seriously concerned about its possible extension.

### **Political development in Ukraine**

Ukraine will hold presidential elections in January 2010. This may point to a reason why the project promoter, the state-owned company Ukrenergo, is in a rush to receive the project loan by the end of 2009. Such a relatively big – for Ukraine – loan (as reported, total EIB and EBRD financing will reach EUR 350 million) can be used as part of the advertising campaign of one of the candidates as a minimum scenario, while the prevailing high levels of corruption, the general lack of transparency and unstable situation in the period of state power transition may lead to misuse of the loan. We do not believe that the EIB or the EBRD can afford such developments.

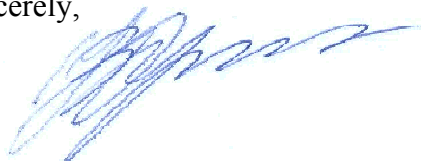
### **EIB – EBRD cooperation**

Rushing the approval of this project, we notice, also contradicts the principles of the EIB-EBRD cooperation reflected in the Memorandum of Understanding signed in December 2006. Unfortunately, this Memorandum itself is published neither by the EIB nor the EBRD, however a related press-release says: “The EIB and the EBRD will work together to identify projects that meet the EU priority of financing major infrastructure. Transactions will be structured and negotiated jointly by both institutions, drawing on the EBRD’s particular expertise and long experience working in the region. The EBRD will share the risk by providing up to 50 percent of the financing for each joint project, and all transactions will have to meet both EIB and EBRD conditions, including integrity, sound reporting, environmental standards and transition impact.”

If this approach to cooperation as described is to mean anything, why is the EIB apparently proceeding with such haste in approving this project? Wouldn't it be much more prudent to wait until the end of the EIA consultations conducted under the EBRD procedures? The details, discrepancies and abuses – real and potential – listed above give us justification, we feel, to urge the EIB not to approve the loan for South Ukraine Power Transmission project at the present time. The EIB, in tandem with the EBRD, should be conduct a thorough examination of this project, including alternative options such as the project's re-designing or outright rejection.

NECU will be glad to provide you with any additional information upon request.

Yours sincerely,



Yury Urbansky, National Ecological Centre of Ukraine,  
CEE Bankwatch Network National Coordinator in Ukraine.