Remembering the Amazon – in Romania

In late October last year, great excitement stirred in the Budapest office of Bankwatch: we were preparing for a training in Romania! These trainings are always a challenge and this one occurred as we were gearing up for the upcoming EBRD Annual Meeting in Bucharest this spring. But, the preparations brought some surprises – and not about the EBRD.

Obviously, trainings should have case studies, so we checked out the familiar web sites of the IFIs – what sorts of case studies are documented on their web sites? On the web site of the World Bank, we found something interesting – a project called the Forestry Development Program. Forestry is a sensitive topic and we immediately thought of the defeated Slovakian Forestry loan, which was annihilated thanks to the persistence of Slovakian NGOs. However, the outdated Project Information did not give us the impression that something horrible laid ahead for the Romanian Forest. When we read the phrase ‘improving forest infrastructure,’ sirens started to sound in our heads.

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What Grows in those Fertile Fields?

In the Summer of 2001, in the City of Most, the Czech Republic surprised Jan Rajter with a generous offer. If the family farmer sold his scattered corn and rye fields near the village of Havran u Mostu, the district would give him a consolidated plot nearby in return.

Rajter accepted, and the next week was shocked to learn that Czech Minister of Industry Miroslav Gregr would soon be visiting the village to host a ceremony for a new engine heads factory. Built by the Mexican firm NEMAK, the factory was slated for the middle of Rajter’s former fields and would directly abut his new land. Less than one kilometre from Havran and visible from his front lawn, the factory area was to be converted into an official industrial zone.

Czech law gave Rajter fourteen days to take back the sale, which he promptly did. But leases on two of his rented plots run out at the end of this year, and district authorities have already approved the change from agricultural to industrial use. Arguing that the switch was made in contravention of the Agricultural Land Protection Act, the Rajters appealed the decision but lost. Construction plans for the factory continue, whether Rajter sells his remaining fields or not.

Backed by national NGOs, the Rajters are now leading a resistance in Havran that continues a battle fought last year in the eastern Bohemian city of Pilsen. It was there that NEMAK first sought to produce 1,600,000 aluminium engine heads annually for the European car market. Mobilized by estimates of the factory’s toxic emissions, a coalition of environmental and citizen groups rallied against the Pilsen project. Backed by key local officials, they collected over 10,000 signatures and kept the factory out of town.

But Havran is tiny. Although 225 of its 350 citizens have signed a petition against the factory, they remain hesitant to challenge state authorities. Havran’s mayor, communist Josef Majercin, supports the factory, and is posting signs around the village asking: “Do you want better roads? A larger swimming pool? New employment possibilities?”

Although job creation from the factory in Havran is expected to be minimal, the campaign has helped keep opposition at a low intensity.

There is also little will to fight in nearby Most, a city of 60,000 at the base of the so-called Black Triangle, which encompasses strip-mined and acid-rain scorched land at the corner of Poland, Germany and the Czech Republic. The vast majority of Most’s citizens moved there after the expulsion of the Sudeten Germans in 1945; the rest moved or were resettled there during the 60s and 70s, when large-scale state mining projects required the razing of Stary (Old) Most and 54 nearby villages. Novy (New) Most is thus the bleak epitome of the Soviet City: a skyline of grey apartment blocks full of people with no connections to the land or any expectations that it should be preserved. The surrounding smokestacks and half-healed coal pits have not produced an ecologically minded civic culture. With an unemployment rate of 20 percent, Most is a dirty and broken district.

Which is exactly why the Rajters and their supporters say the green and hilly fields around Havran must be preserved. “This is the only unspoiled land left in Northern Bohemia,” says Jan Rajter Sr., who shares a small farmhouse with his son’s family of four. “The mining under the communists didn’t effect Havran. This is the last preserve.”

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Roads are the biggest enemies of forests, and we thought about the unique biodiversity which is preserved only in Romania and has disappeared from other parts of Europe. Pictures were flashing – Polomoroeste, Amazonia, World Bank - penetration roads, massive destruction of our global commons. We made last minute attempts to print the recently posted environmental assessment of the project, before leaving for Romania, to get more information about the planned enhancements. We managed to print half of the assessment before the trip, after struggling for half a day with suspicious World Bank 'plug-ins' and ended up downloading each page of the EA separately.

We read the details together with our Romanian NGO colleagues: a major part of the project is to have roughly 500 kilometres of forestry roads reconstructed and some hundred kilometres of new roads constructed. The environmental assessment proved useless in seeing the impacts of the planned road works. The 350-page document did not provide any information on the exact location of the planned roads, no assessment of impacts on biodiversity, and little mention of the fact that these roads aim to enhance the possibilities to log mature forests. One thing became clear, something is wrong with this project. The authors of the EA either lacked professional quality or were instructed to hide something. In addition, it was strange that only three NGOs were consulted during project preparation and the fifteen NGOs we talked to were not even aware of the project.

When we tried to obtain the Romanian version of the study, the World Bank local office in Romania told us that it was being translated, but that it was a slow process due to the difficult nature of the text. Certainly, it is difficult to translate, but concerned stakeholders should have the skills to understand it in English (as the Romanian language executive summary was even more useless than the EA).

Our suspicions grew when we learnt that staff wanted to get the project approved in a ‘streamlined’ manner which, in theory, is not possible in cases involving A category (environmentally sensitive) projects. Meeting with the staff in Washington proved to be little use, as at the meeting with the Task Manager defensiveness was in the air, even though Bank staff should have felt safe – they outnumbered NGO representatives five to one.

However, the meetings in Washington were useful in some way – bank staff could not isolate the criticism – it can reach decision-makers. So, a low efficiency dialogue started, which seemed only to waste time – the project was scheduled to be approved in one and half month’s time (which included Christmas and New Year).

As a Christmas present, Bankwatch received an official protest from the Romanian Minister of Agriculture and Forestry, expressing his view that the statements about the project, posted on Bankwatch’s web site, were neither correct nor appropriate. In a detailed reply, we explained that we can only work with the information that we have and that allegations about corruption in Romanian forestry administration were coming from the experiences of local NGOs - not too far from the forests. We also requested some more documents to have a chance to properly answer, and explained our concerns about having the understaffed Forestry Inspectorate under the same authority as a commercialised state entity (receiving the money to practice environmentally sustainable road building). Our concern was the likelihood that the interests of the latter would prevail and that the inspectorates were too weak to enforce the rule of law (including environmental protection) in both state owned and private forests.

There was no answer, just a parallel letter from the leader of the Romanian project team, which is only valuable for its style. Its rudeness was striking, but turned out to be the standard manner of communication with civil society organizations from the authorities.

In contrast, there was a meeting with NGOs in Romania where Romanian authorities promised a place for NGOs on the Project Monitoring Committee and full transparency in exchange for ceasing their criticism. Transparency never happened, however, and some NGOs felt that it was better to improve a project before it starts then to monitor its failure or destructive-ness.

The work of NGOs in January became more coordinated and a consolidated document with comments/concerns about the project was written. In the meantime, the information came: the decision about the project was delayed – there was still some hope for change!

This time allowed Bankwatch to prepare a comprehensive quality analysis of the Environmental Assessment of the project and send it to the Board of the World Bank as well as to President Wolfensohn. A letter included with the analysis requested the Bank take a closer look into the insufficient nature of the institutional development component of the project, including measures against corruption and for the enforcement of forestry legislation, as the project proposes to enhance commercial activities in the forestry sector in a country where even the Bank estimates 5-20 percent illegal logging.

Later, 17 Romanian NGOs also sent a letter to the same addresses raising similar issues and attaching a 14-page document detailing their concerns.

In the middle of all these efforts, a new, less defensive Task Manager was selected for the project, and a meeting happened in the picturesque city of Brasov, in the middle of Romania, where NGOs, Bank representatives and Romanian authorities discussed the project in March 2002. This time, Romanian authorities made the draft Project Appraisal Document available, which at least provided a chance for engaging in meaningful dialogue, as this was the first document available which contained accurate information about the project. Among other things, we learnt that the project preparation was being cross-subsidized from a previous GEF biodiversity project and that the project team was identical. This is how the Bank uses money trusted for the protection of the environment.

Just one day before the meeting, Bankwatch received a detailed reply
to its letter and comments regarding the projects from the staff of the World Bank (on behalf of Mr. Wolfensohn). However, the letter avoids addressing the key concerns and was disappointing. The letter indicated, as was stated at the meeting with Bank staff, that the Bank does not want to have a new Environmental Assessment. They only want some improvements to aspects which, from a professional aspect, are unsatisfactory, in order to have the document comply with relevant Bank procedures. But, the trick of the improved EA was that the EA ‘improvements’ would be done after the Board had already decided about the project. In this case, obviously, it would have no impact on project design (destroying the whole philosophy of safeguarding the environment and introducing mitigation measures). Knowing the organizational behaviour of the Bank, it is likely that staff will rubberstamp the marginally changed documents and jump ahead into preparing other projects. Similar forestry projects are under preparation in Georgia and Bulgaria, among other countries in the region, causing grave concern to environmental NGOs, recalling the fate of Amazonian rain forest.

To be continued...

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There Goes the Neighbourhood

Nobody denies that the smelting of aluminium is a dirty process, producing toxic materials such as heavy metals and dioxins. Even in industrial Pilsen, the NEMAK factory would have been one of the top polluters.

Miroslav Suta, a physician and toxics expert with Greenpeace, has no doubt that the site of the factory near agricultural land poses serious health risks. “Dioxins are extremely toxic and bio-accumulate in the soil. Between 95 percent and 99 percent of exposure to [them] goes through the food chain – especially dairy products and eggs,” he said. “This is the most fertile land in all of [this part of] Bohemia, and it will be poisoned. There will be long-term effects on local health too.” He says there is a reason why NEMAK’s Mexican factory was built near the desert. Suta’s fears have been echoed by various expert studies. For example, the US Environmental Protection Agency states that plants for secondary aluminium processing are significant sources of dioxins. According to the data, citizens of the Czech Republic are exposed to dioxins at a level that several times exceeds that recommended by the World Heath Organization.

The Rajters worry that dioxins from the factory will contaminate their crops and enter the local water table – currently the cleanest in the Most district. Because Rajter grows corn to feed his 80 dairy cows, he expects local purchasers will stop buying his milk and cheese. “How can I compete with pictures of fresh and clean cows from Switzerland when people know this factory is here?” he said. “And how can I know my children’s water is clean?”

His wife Jana, who worked for years in a communist-era chemical plant, says she knows what dioxins do to people. Several of her former colleagues have died of cancer. But Peter Kucera, NEMAK’s press officer in the Czech Republic, maintains that emissions will pose no threat to local health. He dismisses ecological concerns and stresses the economic benefits of the factory, which is expected to employ several hundred trained workers from around Most and 20 unskilled laborers from Havran.

“We need to ask what economic value Mr. Rajter’s farm brings to the district,” said Kucera in his Prague 1 office. “Cancer and heavy metals – these words are scare mongering. The Rajters are victims of NGOs who are using them for their own purposes.”

While Jan Rajter scoffs at the idea that he is the victim of anyone but corrupt politicians and NEMAK, it is not the worst insult hurled at him in recent weeks. Speaking on national television, Czech Prime Minister Milos Zeman branded the dairy farmer and father of three a “public enemy” and “dangerous fundamentalist, spawning an Al Qaeda-style extremism.”

Location, Location, Location

The choice of the factory site continues to baffle opposition activists. Pavel Pribyl, who directs the Prague office of CEE Bankwatch Network, an NGO that monitors development projects in Eastern Europe, says that neither state authorities nor NEMAK have offered a detailed justification of the site over other possibilities.

“There’s no logic,” he said. “There are many suitable sites surrounding Most, lots of abandoned land and brown fields suitable for industry.” Pribyl claims the city first offered the Mexican firm a site with infrastructure, transport connections and energy links located on an abandoned industrial lot, but was rejected by NEMAK because it overlooked a huge chemical facility in nearby Litvinov.

Mr. Kucera, the NEMAK spokesman who is also a board member of the Czech Association of Public Relations Agencies, insists the Havran site was presented to NEMAK by Most officials only after carefully studying the options. “They offered it to us,” he said.

When pressed, Kucera admits that “corporate pride” is an issue in choosing production sites. “Investors like green fields. They like birds and forests,” he said. “There are brown fields in Most, but why would we build a factory in the middle of a [former] coal pit? They would have to pave the roads with gold for us to go there.”

To be continued...
If not pure gold, the road to foreign investment in the Czech Republic is at least free of potholes. Corporations receive tax holidays of up to ten years, as well as construction subsidies and job creation grants from the government. The new industrial zone in Havran—encompassing some of Rajter’s plots—was offered to NEMAK for the symbolic sum of one Czech crown (one USD equals roughly 36 Czech crowns) per square meter. The Czech government will also pay to construct transportation links to the factory.

NEMAK stresses it will be a good corporate citizen and sprinkle the local village with gifts—such as new roads and better street lights—but Jan Rajter Sr., whose family became an object of persecution under the communist regime for refusing to join Soviet kolchoz-style farming (a practice which brought disaster to people as well as the environment), remains an old man burning with anger. “These corporations are migrant birds,” he said. “They come here, make their money, ruin the land—and then they’ll move east in ten years looking for cheaper labour. I thought the destruction of the land was over after the communists, but it isn’t.”

### Don’t Bank on It

NGOs now have their sights set firmly on the European Bank for Reconstruction and Development (EBRD), which NEMAK has approached to help fund its multi-billion Czech crown investment. Because district authorities have already approved the Land Use Permit for industrial development—and are fully backed by the political establishment in Prague—NGOs believe this is the best chance to force NEMAK away from Havran.

Their strategy is to convince the EBRD that the process by which NEMAK acquired state approval for its factory was full of procedural and technical failings—and thus contrary to both EBRD policy and Czech law.

The first legal controversy NEMAK stirred up in the Czech Republic was shortly after it sought a license to build the factory in downtown Pilsen. The firm originally produced an Environmental Impact Assessment plan that was so incomplete that the local Ministry of Environment made them do it again. The second draft showed a more honest estimate of emissions, which sparked a backlash in the city.

NEMAK then hastily began work on another EIA report which predicted less emissions, but the public outcry had begun and was getting louder. The company smelled defeat and left Pilsen.

Stung by events in Pilsen, the company tried a different approach in Havran. According to Dr. Suta from Greenpeace, they implemented something known as the “salami” strategy, in which EIA reports are presented that deal with “slices” of a project, but do not reflect the pollution generated when a factory is operating at maximum capacity.

“NEMAK’s first salami bit was a report showing the effects from [the production of] 150,000 engine heads, and so the pollution was within the limits,” said Suta.

Although the factory is designed and expected to produce 1,600,000 engine heads a year, the land use permit was granted by Most district authorities based on NEMAK’s assessment of production at less than 10% of that figure. No official at the regional or national level made a sound, and Czech political support for the Havran factory remains rock solid.

The Rajters and NGOs also say that NEMAK has yet to produce detailed information required by law regarding the impact on local health and worker safety. Suta says both the Ministry of the Environment and the Public Health Authority are quiet on this, and have evaded NGO efforts to acquire information regarding complete emissions figures, waste management plans or emergency clean-up plans should a spill or fire occur.

According to EBRD policy, such technical failings would immediately disqualify NEMAK for loans. The firm’s application is currently at the initial review process at the EBRD, whose website lists “sound and sustainable development” as one of its “highest priorities.”

Should the EBRD loan be denied—or should public opposition increase significantly—it is possible NEMAK will leave the Czech Republic altogether. While currently preparing to build in Bohemia, the company is still actively considering alternative sites in Hungary and Slovakia.

### “It’s a Buyers Market”

Whether the factory ultimately gets built in Havran or Hungary, the NEMAK case remains a useful reminder of the political and economic reality in post-communist Europe. The elements of the story—selective application of the law, weak civil society, desperation for jobs—have all helped define development in the region since 1989.

Countries hungrily pursue direct foreign investment (FDI) for job creation and politicians fight over the subsequent political spoils, in the process often falling over each other to offer potential investors the best conditions. Critics call this a “race to the bottom,” and argue that too much—such as farm land in Havran—is traded away for short-term gains. They argue further that mechanisms are needed to ensure more leverage between corporations and affected communities.

“It’s a buyer’s market,” said NEMAK’s spokesman Kucera, “especially in this region. Foreign investors can dictate conditions because they can always get what they want elsewhere. They have loads of options.”

Those options are frequently found in Eastern Europe. In the non-EU East, labor is cheap and corruption often unchecked, allowing companies to both increase profits and sidestep lengthy and potentially problematic procedural issues, as critics claim happened in Havran.

Pavel Pribyl, with the CEE Bankwatch Network, said that the events surrounding the NEMAK factory are par for the course in the Czech Republic, and only caused an uproar because of the high levels of pollution involved. Still, he thinks Pilsen was important. “The defeat in Pilsen was a victory for civil society. It was empowering,” he said.

But the two biggest political parties in the country don’t see it that way. Since NEMAK’s defeat in Pilsen, hard-liners in Parliament from both ODS and CSSD have spearheaded an attempt to limit public involvement in decisions concerning FDI and construction projects in general, such as motorways and industrial zones. A new bill, currently being debated in the lower chamber of parliament, would effec-
Reinventing the Wheel

The Forestry Development Project (FDP) in Romania is an issue of serious concern for several Romanian environmental NGOs. The project was initiated by the Romanian Government through the Ministry of Agriculture, Food and Forests (MAAF) and is to be financed by the World Bank with a loan of USD 32 million. The main objective of the project is “to maintain and improve environmentally sustainable management of state and private forests, so as to increase their contribution to the national and rural economy”. A dubious choice of words right from the beginning.

More specifically, the project addresses two important aspects in the present Romanian forestry sector: institutional reform and forest restitution consequences on the management of state forest land. There are also a number of other important components or subcomponents in the project’s scope, such as public awareness, developing a capable organization of private forest owners, establishing a national management information and monitoring system, etc.

What are the issues that gave rise to the concerned voices? Sectoral reform is definitely needed, as is mitigation of the consequences of forest restitution on overall forestry in Romania. The grounds for some protest actions by Romanian NGOs lies mainly, but not totally, behind the reflection of all the above-mentioned objectives in the budget structuring of the project: approximately 70 percent of the project’s estimated budget will go towards rehabilitating and expanding the forest road network in the State production forests.

The National Forest Administration (NFA), which is the main beneficiary of this subcomponent of the FDP, is a State commercialized company, with relative autonomy (the Romanian Government approves its yearly budget of spending and incomes, and also, through the MAAF, regulates some of the activities performed by the company). The NFA is decisively favored when it comes to forest road construction; not just from one but from three different sources. First, the NFA is the recipient of State budget funds through governmental subsidies for forest road construction and rehabilitation; secondly, the NFA also has the potential to subcontract road construction in exchange for wood from its own resources (State forests); and now, with the FDP, the NFA has a new opportunity to expand its forest road network with almost 500 km of rehabilitated and 80 km of newly constructed forest roads.

All of these in the context of a so-called pilot project which will try to endorse new and sustainable techniques of road construction. How will the process be sustained? By preparing in the first year of FDP the “Best Practice Guidelines for Forest Roads”. It is a bit like reinventing the wheel…

To this point, after two meetings among stakeholders (one in December 2001, one just recently in March) and numerous verbal and written consultations, there is no clarification on how the “Best Practice Guidelines” will be legally enforced. There is another important aspect. Obviously, the new technical provisions on forest road construction will increase the cost of production. For the roads included in the FDP it is quite clear, there is plenty of money, and the World Bank is keen to provide the necessary funds. What will happen with the rest of the roads, which need rehabilitation, or with those which need to be constructed? While the IMF pressure on the Romanian Government is to cut down on state subsidies as much as possible, the NFA will have to find a way to get by the new regulations. One solution might be the increase of wood quantity in place of forest road construction and rehabilitation.

Many aspects related to the FDP need elucidation and/or further evaluation. There is not enough space here to have a complete overview of the FDP, but one question remains: what do we really want to happen with our forests? One person involved in the preparation of the FDP responded: “we want our production forests to be like those in Austria and we want our protected forests and natural areas to be just like they are.” This might be desirable, but not at the cost of losing biodiversity in, as the FDP itself stated, “some of the last and largest tracts of natural and virgin old growth forests still remaining in Europe.”

New Bankwatch Publications

Quality Analysis of the Environmental Assessment Report for the Romanian Forestry Development Program

This Analysis is a critical overview which points out the major deficiencies, mostly in the segments of screening and scooping, impact identification timing, public participation, and overall quality of the Environmental Assessment carried out for the Forestry Development Program in Romania.

Bankwatch Comments on the EBRD Public Information Policy

Comments include Bankwatch recommendations for improvements of the Information Policy, so that more information about EBRD’s projects and policies would be publicly available.

These publications are available on-line at: www.bankwatch.org/publications/index.html
The EIA Procedure has not Started at all!

Although Bulgarian NGOs and scientists asked for a new Environmental Impact Assessment (EIA) for the Sofia-Kulata Motorway project, part of the Trans-European Corridor N4, the Bulgarian Ministry of Environment and Water (MEW) decided to ask only for supplementation of the existing assessment. The EIA report is prepared as part of the preliminary design of the motorway, funded by the EU PHARE Cross-Boarder Co-operation Program. Construction of the highway is very problematic as it is planned to pass through the Kresna gorge CORINE site (Site Code F00002500), one of the seven most important territories for biodiversity protection in Bulgaria. The combination of Mediterranean and Continental habitats in a 17 km long and steep gorge make the Kresna CORINE site unique, but also very vulnerable to any construction activities.

The present preliminary EIA report is the fourth one in five years for the design of the Motorway Sofia – Kulata (Struma Motorway). The previous three reports were rejected by the MEW due to the lack of alternative alignment of the highway outside the Kresna CORINE site. “The latest report tries to make an assessment of the five route-beds for the territory of the gorge. Since the Road Agency gives priority to construction into the gorge, the design of the two ‘alternatives’ outside the gorge consists of merely a two-page description and several maps. We consider that the design company, SPEA Ingegneria Europea, chose specialists closely connected with the Investor, preventing them from making an independent assessment.”

Furthermore, the EIA report, paid by the EU PHARE Cross-Border Co-operation Program has very serious defects and does not take into account any of the EU directives related to EIA. The public hearings for the EIA report also were in contradiction with the philosophy of the process. NGOs submitted a common statement regarding the quality of the EIA procedure to the Minister of Environment. The NGOs consider that the EIA report should be rejected, or returned for supplementation.

“For more than ten years, public hearings on EIA reports have been conducted in Bulgaria. But still the people are not really aware of the existence of such procedures and of the rights and possibilities that they provide,” state the NGOs in their statement on the quality of the EIA procedure. It is crucial that the appraisal be based on the monitoring of the EIA procedure, financed by the EU program. Thus, several Bulgarian environmental NGOs have sent a letter to the European Commission appealing for support and involvement in the case. Specifically, they would like the DG Environment to do a screening of the EIA report and to write a statement on it. The Bulgarian public is relying on the fact that, at least in cases where EU funding is involved, EU environmental standards will be enforced.

Coming soon...

Sustainable Theory  Unsustainable Practice; Billions for Sustainability?

Third Briefing on the use of EU pre-accession funds and their environmental and social implications, written by environmental NGOs in preaccession countries.

Gold Mining in Kyrgyz Republic

This study examines the role of IFIs in the Kyrgyz mining sector, with the case study on Kumtyor Gold Mine Project.

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