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EBRD Meeting in Tashkent: Incentive for Progress or Endorsement of Repression?

By Veronika Leila Szente Goldston, Human Rights Watch

With the annual meeting of the European Bank for Reconstruction and Development in Uzbekistan only days away, a crucial question remains: Will this high-level gathering serve to promote political and economic reform in the host country, or reward one of the most repressive governments in the region?

The Bank, unique among international financial institutions in having a mandate that includes the promotion of human rights and democracy, has faced significant criticism for its decision to grant the Uzbek government the political prestige and financial benefit of hosting its annual meeting. A broad campaign by non-governmental groups, launched a year ago by Human Rights Watch, the CEE Bankwatch Network, and over fifty partners,

warned the EBRD that going ahead with the meeting without requiring any concessions in exchange would allow the Uzbek government to flag it as an endorsement of its repressive policies.

The Bank has proven reluctant to heed these calls. Its President, Jean Lemierre, has repeatedly emphasized that the meeting is "not an endorsement," but "an incentive to make progress." Yet the Bank has failed to translate this statement of principle into a requirement of practical steps toward reform before the meeting convenes. As a result, the Bank has lost valuable time and squandered much of the leverage for reform it had.

If the upcoming meeting is to have

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Would EBRD Money for Baku-Ceyhan Endorse Human Rights Violations?

The rush for Caspian oil is entering a crucial phase. National governments, joined by the BTC company (led by BP), are heavily lobbying various international financial institutions to financially back Baku-Tbilisi-Ceyhan (BTC) pipeline while the political situation is still favourable for the most expensive oil pipeline in world.

However, many problems associated with the BTC pipeline remain unresolved, including, questionable deals surrounding the Azeri Oil Fund, the questionable process of approving the Environmental Impact Assessment in Georgia, and the Host Government Agreements' impact on the countries' further development. A common thread running through all these issues is a clear pattern of the governments and project sponsor attempting to secure their commercial

interests at the expense of ordinary citizens' political, socio-economic and cultural rights.



Proposed BTC route: road towards Turkish border

The project promoters are trying to convince the world that the pipeline would bring democracy, eradicate poverty, improve people's welfare and lead to the countries' economic revival. The European Bank for Reconstruction and Development (EBRD) and World Bank, which may provide funds for BTC construction, have clear mandates that their investments should serve the public interest. Meanwhile, the governments have already signed the Intergovernmental and Host Governmental Agreements, both of which clearly show no public benefits of the pipeline, and represent potential violations of the European Convention on Human Rights, European Union laws and regulations and other international law instruments.

Furthermore, the national governments' reaction to concerns raised by citizens and public groups is alarming. Instead of responding constructively to public concerns, they blame interest groups and ordinary people for delays in project financing and have begun to increase pressure on opponents and critics of the pipeline.

Of course, this is nothing new for the people of the region. Many remember the seventy-year experience of all the 'benefits' of Soviet rule, when freedom of speech, transparency and protection of basic human rights took backseat to the goal of having a 'strong and flourishing' country. At

the same time, the majority of people living in the part of eastern Turkey through which the pipeline will pass - Kurds, Cerkez and other minorities -- have for the last fifty years been denied their right to their own ethnic identity and languages.

While the methods used by the governments of Turkey, Azerbaijan, and Georgia vary, they share a common essence. Any people raising concerns about what is termed a 'state project', are automatically considered enemies of the state. Georgian high officials have begun to divide the public interest groups into 'good' and 'bad' ones, saying that pipeline opponents and critics are fully funded by 'enemy' states, and these people are against the independence and welfare of their native countries.

Sometimes emotions become involved, especially concerning such issues as the redistribution of oil revenues and corruption. Ilham Aliyev - Vice-president of the State Oil Company of the Azerbaijan Republic, member of parliament, and son of President Heydar Aliyev - recently threatened to punish people opposed to the Baku-Tbilisi-Ceyhan project or questioning the disbursement of money from the State Oil Fund.

In Turkey several weeks ago, an international fact finding mission consisting of members of British and Italian organisation was detained by

police in eastern Turkey while attempting to gather information and interview residents about the situation in the region. The project promoters claim that the detention of a group of people asking unusual questions among the Kurdish population is quite normal and not a significant event compared with the overall human rights situation of the minorities living there.

The issue of proper land compensation, the dramatic effect on the livelihood of local communities, and impacts on the countries' socio-economic revival have not been properly addressed. Even the BTC company acknowledges that construction teams inevitably would bring other ills, including prostitution and communicable diseases, greater urbanisation, an influx of migrant workers and an overall shift in the way of life.

Recent developments in the region clearly show that there is a large possibility for physical and psychological danger to local communities and potential future violations of basic human rights and fundamental freedom. Now it is up to the IFIs - the World Bank and EBRD to decide whether they will endorse such a situation. Will they ignore the needs of ordinary citizens in order to support this 'global pipeline project', or will they at least try to guarantee the protection of fundamental human rights and freedoms?

Is the EBRD Planning to Export 'Chernobyl Type' Aluminium?

Although the Chernobyl nuclear power plant has been closed since December 2000, a number of reactors of the same RBMK type still operate in Russia. The first of these dangerous reactors was built in Sosnovy Bor near St. Petersburg in 1973. There are currently four reactors of the same type operating in Sosnovy Bor.

Over the past few years, a group of American and Russian investors including Alutech (USA) and ABI (USA) have been working on plans to construct a new aluminium smelter to produce 360 000 tons of aluminium per year for export. This would require one million tons of raw materials imported from Guinea and New Zealand - and obviously cheap electricity. For this, they came up with the idea to use the electricity from the obsolete and dangerous reactors in Sosnovy Bor.

In fact, the Vice-governor of Leningrad oblast, Grigory Dvas, has stated that the group of investors and RosEnergAtom company have signed an agreement that the aluminium corporation would invest USD 400 million into reconstructing one unit of Sosnovy Bor which be fully dedicated to the needs of the aluminium smelter. According to the Russian newspaper Komersant, the EBRD and IFC would be the main investors in this USD 1,2 billion aluminium smelter.

The EBRD already has experience with a similar scheme from Slovakia, where it helped expand the Slovalco aluminium smelter, which - with an annual production of 150 000 tons of aluminium - is the largest single consumer of electricity in Slovakia. For this, a special long-term and low-price contract was signed between Slovenske Elektrarne (Slovak Energy Utilities) and Slovalco.

Not only are other consumers indirectly subsidising this low-price aluminium electricity, but the aluminium

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any positive impact on the political and economic development of Uzbekistan, it is now incumbent upon the Bank and its shareholder governments to use the meeting to identify specific reforms expected as a condition of further engagement, and after the meeting is over, to monitor and insist upon Uzbekistan's compliance.

Speeches by governors and others at the meeting should reiterate the benchmarks for reform identified in the Bank's recently adopted country strategy for Uzbekistan and question the Uzbek government on the progress it has made in meeting them.

They should address restrictions imposed on the operation of civil society groups and inquire about the reasons why most Uzbek human rights NGOs attending the meeting, such as the Human Rights Society of Uzbekistan, Mazlum, and the Committee of Legal Assistance to Prisoners, remain 'illegal'. They should express concern about the arrests of seven human rights defenders in 2002 alone, including the forcible detention of Elena Urlaeva in a closed psychiatric ward in Tashkent. They should call for the release of those arbitrarily detained human rights defenders who remain in prison, including Tursunbai Utamuratov, Jura Muradov, Musulmankul Khamraev, and Norpulat Rajapov, and lament their absence from the meeting.

They should further ask about the estimated 6,500 religious and political prisoners serving lengthy sentences in Uzbekistan's prisons, where

torture is rampant and disease rife. They should not fail to note the conclusion by Theo van Boven, the U.N. Special Rapporteur on Torture, that torture is 'systematic' in Uzbekistan, and call on the Uzbek government to implement his recommendations without delay. They should demand that their statements be accurately depicted in the local press, which continues to be subjected to strict government controls.

It is clear that shying away from public shaming in a country like Uzbekistan will not pay off. Coverage of the upcoming meeting in Uzbekistan's government-controlled media has cast it just as anyone even remotely familiar with authoritarian regimes would have expected. To illustrate, a March 18 television broadcast by 'Akhborot' told Uzbek viewers that "[t]he EBRD does not cooperate with just any country because it sets its own conditions of principle, and a country wishing to receive financial aid from the organization should accept them... Fruitful cooperation between Uzbekistan and the EBRD shows that Uzbekistan has gained a great deal of trust in this respect. Another important point is that the forthcoming annual meeting of the Board of Governors of the EBRD will be held in Tashkent. This fact is further proof that Uzbekistan's prestige on the international arena is growing..."

Surely a forceful and unequivocal clarification of what drove the EBRD's Board of Governors to give its stamp of approval to Tashkent as the venue of its upcoming annual meeting is warranted. Over and over again, before, during, and long after

the meeting,

Bank and shareholder government officials should emphasize that the choice of Tashkent is a test of Uzbek government will to reform, not a reward for current practices.

As for the Bank's engagement more generally, there is a useful lesson to be learned from this experience: political and economic benefits serve as a more effective incentive for reform if linked to the required reform before being granted, rather than after the fact. That is, the Bank would almost certainly have achieved a lot more in terms of human rights improvements had it told the Uzbek authorities that it would be pleased to have them host one of its annual meetings as soon as their record on democracy and human rights would meet the standards required by the Bank's founding principles, and not before.

It should simply have made clear that its founding document would not allow for a meeting in Tashkent until significant improvements could be noted in the Uzbek government's human rights record. That would have been a real incentive for progress, with no risk of turning the exercise into an endorsement of existing, repressive policies. With this course of action no longer an option, the Bank and its shareholders will have to redouble efforts to make the most of the leverage at hand; this entails being outspoken about human rights concerns at the meeting itself, and engaging in serious follow up to make sure that pressure for reform will not relent after the meeting is over.

smelter's electricity consumption is now used as one of the arguments for continuing to operate the nuclear power plant in Jaslovské Bohunice. Bohunice is on the list of the most risky reactors that should be decommissioned in the near future.

We may well see a similar situation in Russia. In this case, what will the benefits be for ordinary Russians? Firstly, since the aluminium smelter will provide justification for operating Sosnovy Bor, they can continue to live under the risk of a nuclear accident similar to Chernobyl. Though, as we learned from Chernobyl, radioactivity can be exported quite easily. Secondly, they will be left with waste, since even in Russia the law of conservation of

matter is still valid. (If one produces 360 000 tons of aluminium from one million tons of raw materials, you can make your own calculation as to how much waste will be created every year.) And thirdly, they can enjoy the air pollution that is quite typical for aluminium smelters.

Is this the type of 'development' that financial institutions financed from state budgets to fight poverty and sustainable development should support? Russian NGOs and local residents have already begun to question this proposal, demanding an environmental and health impact assessment and requesting public hearings and open debate about this project.

Greenfields for Corporations - Toxic Legacy for Local Residents

Last year (see Bankwatch Mail No.11, March 2002), we reported on the plans by Mexican company NEMAK to construct a factory for producing aluminium engine heads on the last remaining prime agricultural land in the Most District in the northern Czech Republic. Instead of opting to revitalise derelict industrial areas in the economically region, the company chose to destroy existing agricultural land and threaten surrounding farms with potential pollution. The European Bank for Reconstruction and Development has expressed interest in financing the project, which has been at the initial due diligence stage of consideration for several years already.

Construction has already begun near village of Havran, but many local residents are angry at the way the project was rushed through the permitting process. Saying that the agricultural land was illegally reclassified as industrial, and pointing out possible illegalities in the project's environmental risk assessment, they have called for a municipal referendum on the project.

The manner in which the land was made available to NEMAK is indeed suspicious. Some of the land on which the factory is being built originally belonged to a local farmer, who was offered a consolidated plot of land by the district authorities in exchange for his small, scattered holdings. When he learned that his new farmland would directly abut a dioxin-producing factory, however, he changed his mind - which he was legally entitled to do. His appeal was denied.

When the company applied for a land use permit, it presented an environmental impact assessment of the plant's possible pollution based on the production of 150 000 engine heads per year. The plant's planned output, however, will be 10 times that figure. Presented with the lower pollution figure, district authorities approved the permit.

These potentially illegal, undemocratic actions of the Czech authorities

and the NEMAK company did not go unnoticed. In the summer of 2002, the Czech ombudsman confirmed that the land for the project was illegally removed from the *F a r m l a n d* Register. But there has been little political pressure to do anything.

Even the local residents' attempts to participate in the project decision making process have been ignored. In September 2002, they requested a municipal referendum on the project, but the municipality, supported by the central government, has so far failed to call a referendum. Further requests have been denied as well. In response, a constitutional complaint has been filed with the constitutional court.

The company, like the local government, has not been very forthcoming either. This spring, an independent expert assessed a number of project documents, including the environmental impact assessment and construction permit. His report shows that NEMAK failed to properly study the potential toxicity of the solid and liquid wastes and toxic gas emissions. Specifically, the project documentation ignores several important toxic compounds that are almost sure to be created during manufacture of aluminium engine heads. Even short-term exposure to high levels of dioxins can cause skin disease and harm the functioning of the liver. Long-term exposure harms the immune, nervous, and endocrine systems and can lead to cancer or cause male infertility. Although today's technologies make it possible to decrease harmful emissions to very low levels, NEMAK's documents do not call for such measures.

Another serious omission is the problem of toxic waste. NEMAK has not provided details on how waste will be treated and where it will be stored.



Nor does the project documentation provide any information about substances in contaminated wastewater or how these will be handled. In the end, the independent expert review of NEMAK's documents concludes that *"the authors did not have any expertise on waste management and the assessment ... was made by lay people"*.

EBRD Environmental Procedures Violated

The affected public was not duly involved in the decision-making process; the investors did not arrange any scoping meeting at which concerned groups, including those involved in the EIA process of a previously considered site, could express their opinion on the content and scope of the EIA documentation.

The EBRD continues to state that the project has not moved beyond the concept clearance stage. On the other hand, NGOs have yet to receive any reaction to the above-mentioned independent expert assessment, which they provided to the Project Team Leader at the beginning of March 2003.

The EBRD should not proceed with the project as long as these concerns are not addressed by the project promoters and local people are illegally prevented from deciding whether they agree with such a project in their municipality.

K2/R4 is Back on Stage

On April 8, 2003 an unknown person appeared in the dormitory of the law faculty of Shevchenko National University in Kiev. He inquired about students involved in the court case against Energoatom, a Ukrainian state-owned nuclear power company and sponsor of the controversial K2/R4 (Khmelnitsky/Rivne) project. Based on the accounts of witnesses who live in the dorm, it became clear that the person wanted to talk to the plaintiffs to persuade them to withdraw their suit.

The next day, a man who refused to give his name called plaintiffs' representative Aleksey Tolkachov. During the conversation, the stranger strongly recommended that Tolkachov withdraw court applications against Energoatom and stop the case if students wished to graduate from the University. He said that even if they managed to graduate, they would not be able to find jobs later and that special national security forces would take care of the students' unpatriotic activities.

Less than week before, at talks held in London, EBRD President Jean Lemierre and Ukrainian Prime Minister Viktor Yanukovich had shown some progress in attempts at reviving financing for the completion of two Soviet-designed nuclear reactors in Ukraine. "*We are working on a sound basis and I hope that by the summer we may reach some conclusions,*" Lemierre said at a press conference with Yanukovich.

The fact that Ukrainian authorities were becoming more serious about obtaining EBRD financing became evident right after the Prime Minister had secured this diplomatic support. The silencing of antinuclear voices was one indication of the government's determination. Such things had not happened since 1998, when police intimidation in Ukraine escalated in the days leading up to the EBRD's 1998 annual general meeting in Kiev. In early May of that year, a Ukrainian student activist was interrogated and harassed by a member of the Ukrainian Secret Service. The officer threatened the use of physical

violence against protesters and threatened the student with expulsion from the university where he was studying. Other members of environmental groups were also interrogated, threatened and placed under surveillance. Five activists were arrested and sentenced to three to five days in jail, simply for distributing flyers calling for the EBRD not to fund K2/R4.

In the mid-nineties, as the K2/R4 project was being developed, Ukrainian officials claimed that the reactors were needed to compensate for the decrease in power generation capacity after the closure of Chernobyl, as well as to secure energy independence from Russia. Today, in 2003, two winters have already passed since Chernobyl was shut down, with no energy shortage. At the same time,



Ukraine continues to import nuclear fuel from Russia for the 13 already operating reactors, and Ukraine depends on Russia for dealing with nuclear waste. Somehow, these facts are ignored by the proponents of so-called 'energy independence'.

Recently, the Ukrainian government came out with an estimate of the cost of completing the reactors. According to Decrees no. 146 and no. 147 of March 17, 2003, the cost is UAH 6,7 billion (USD 1,26 billion) for two reactors: UAH 3,3 billion for Khmelnitsky unit 2 and UAH 3,4 billion for Rivne unit 4. These sums are not much different from the EBRD's original 2000 estimation of USD 1,48 billion, and came as a bit of a surprise since the Ukrainian authorities had previously claimed that the EBRD's original cost estimate was too high and that USD 200 to 400 million would be enough for each reactor.

One possible explanation for the increase of the 'Ukrainian' cost could be the Ukrainian presidential elections next year. A possible future scenario might look like this: (i) Ukraine accepts EBRD conditions in exchange for quick loan disbursement and (ii) Kuchma's protégé (Yanukovich) solemnly opens the new reactor during a pompous ceremony broadcast nationwide. The 'optimistic' scenario, in addition, might include an opportunity for certain individuals to redirect a few hundred million from the financial package for themselves.

To Go or not to Go?

It is still not clear how willing the EBRD is to dive back into the painful process of preparing a new loan for

K2/R4, but the CEE Bankwatch Network is concerned by renewed talks on the project. After Ukraine withdrew its project proposal from the EBRD in 2001, it seemed clear that K2/R4 would be shelved for good. With the project's possible revival, the position of NGOs remains the same -

these reactors cannot be made safe, they are difficult to justify economically, and public opinion in Ukraine does not support the increased use of nuclear energy. The EBRD should say clear a 'no' to nuclear development in Ukraine and entire region.

If, however, the EBRD decides to continue with K2/R4, it must take all the necessary steps to ensure that the project complies with the bank's principles for financing such projects. Since the conditions for granting the loan have changed and there may be a change in the project cost, a new safety assessment should be carried out, and there is strong need for a new Environmental Impact Assessment, done according to EBRD procedures and including public consultations. And intimidation of the public cannot be tolerated.

EBRD in the News

March 4 - EBRD delegation visits Ukraine, meets with Cabinet of Ministers and business leaders. Topics included transport, banking and agribusiness sectors, as well as energy-sector reforms and debt restructuring.

March 5 - EBRD announces search for new headquarters. The Bank is considering whether to negotiate remaining at One Exchange Square or to move into a new building yet to be constructed. In 1992, the Bank was widely criticised in the press for the lavish decor of its headquarters, which included marble from Italy and went GBP 13 million over budget.

March 6 - EBRD Board of Representatives visits Hungary. First visit by EBRD Board members since 1999. The delegation visited several projects in which the Bank has invested, among them the AKA Motorway Company, which is behind the M5 motorway, and Vivendi Telecom Hungary, the country's second-largest telecom company.

March 12 - EBRD appoints new Secretary General, Johnny Akerholm. Mr Akerholm previously was Under-Secretary of State for Economic Affairs in the Finnish Ministry of Finance.

March 16 - EBRD warns Uzbekistan on it will not be able to continue its lending program if there is no improvement in the country's political and economic situation in the next year. Bankwatch welcomes the EBRD's commitment to human rights.

March 25 - Several environmental and human rights groups send EBRD officials a letter protesting the planned Baku-Tbilisi-Ceyhan pipeline from the Caspian Sea to Turkey's Mediterranean coast.

April 3 - Ukrainian Prime Minister Victor Yanukovich meet with EBRD President Jean Lemierre. Plans for completing Khmelnytsky 2 and Rivne 4 are revived.

April 6 - Noreen Doyle, EBRD First Vice President begins a five-day visit to Albania and Bosnia and Herzegovina. During her trip, she where she meets with senior government officials and leading businesspeople. The EBRD is the largest single investor in Albania and BiH.

April 16 - EBRD agrees improved terms for headquarters at Exchange Square. The new lease terms will run to 2022, with rent maintained at the current level of GBP 18,975,000 per annum and upward only rent reviews in 2006 and every five years afterwards. There will be a 3½-year rent-free period from June 2003.

Active Bankwatchers

We launched Active Bankwatchers in September 2002, to coincide with the World Bank and IMF meetings in Washington, DC. The World Bank/IMF aren't our only targets, though.

The main aim of Active Bankwatchers is to increase public involvement in reforming International Financial Institutions - especially the World Bank, the European Investment Bank, and the European Bank for Reconstruction and Development. The IFIs think nobody is watching them. We want to let them know that we are here and that ordinary people are watching what they do.

Over the past six months, Active Bankwatcher have helped us fight against EU plans to fund a nuclear reactor in Romania, EIB and EU funding for a controversial motorway in the Czech Republic, and an environmentally destructive gold mine in Romania. Many Active Bankwatchers have sent us copies of the official responses they have received in reply to their letters, which are published on the Active Bankwatch website at active.bankwatch.org.

We currently have around 250 members - not a bad number, but we'd like more people to join. You can sign up for Active Bankwatchers at active.bankwatch.org, or send the page to your friends with the click of a button. All you need to do to join is

enter your name, country and email address. We will send you a confirmation email, and then you'll start receiving news, Action Alerts, and our newsletter, Bankwatch Mail.

The Active Bankwatchers web page also contains links to current and past campaigns, and other sections of the Bankwatch web site are full of information on International Financial Institutions. We always appreciate questions, comments or suggestions about Active Bankwatchers.



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CEE Banwatch Network is an international NGO network with members in 12 countries of the CEE and CIS region. The Network monitors the activities of International Financial Institutions.

Bankwatch Mail

Issue 18, April 2003

Electronic version:

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