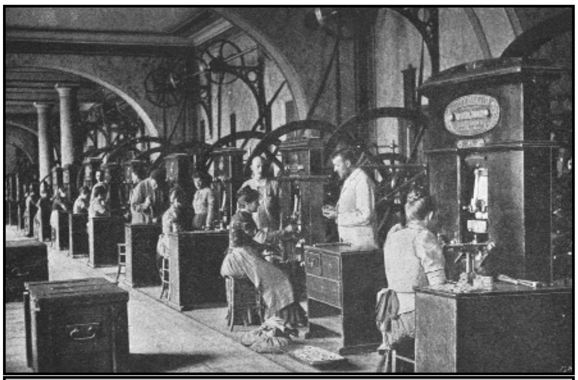
Bankwatch Mail

Newsletter of the CEE Bankwatch Network on International Financial Flows

Issue 22 September 2004

Troubling trends in the IFC's Social and Environmental Safeguards review

The International Finance Corporation (IFC), the World Bank's private sector lending arm, is currently revising its environmental and social safeguards and information disclosure policy. The safeguard policies cover a range of critical issues, including environmental assessment, impacts on indigenous peoples, involuntary resettlement, community health, and labour standards. These policies provide the minimum standards to which the IFC and its private sector clients are to be held accountable.



The Safeguards Review stroll: "On your marks, get set..."

Civil society organisations have long sought to strengthen the safeguard policies to ensure the rights of affected communities are respected by IFC-financed projects. Precisely how these minimum standards are revised is of utmost importance. As the IFC itself acknowledges, the new standards are slated to become global social and environmental benchmarks for international investment, both public and private. In the past two years, more than 20 commercial banks have agreed to follow a set of environmental and social standards - known as the "Equator Principles" - that are based on the IFC's safeguard policies. These Equator Banks provide over 75% of all development project financing around the world. Additionally, national export credit agencies (ECAs) are also increasingly relying on IFC safeguard standards.

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When World Bank president Wolfensohn commissioned the Extractive Industries Review (EIR) in September 2000 to obtain guidance on Bank investments in gas, oil and mining, the desire to avoid a repeat of such international controversy as surrounded the Chad/Cameroon Oil & Pipeline project, must have loomed large in his mind. Just three months earlier, in June 2000, the Bank had approved financing for the USD 3.7 billion Chad/Cameroon project amidst a large international outcry and concerns by many governments about the social, environmental and human rights risks of funding an oil development in this politically volatile region. Both Chad and Cameroon are run by dictatorships and are notorious for serious human rights abuses and pervasive corruption. Critics feared that the project would repeat the history of other oil development in Africa's Gulf of Guinea region which has been marked by impoverishment, repression and environmental destruction.

After three years of intensive work, the EIR presented a solid set of recommendations to guide Bank decision-making which – if adopted – could have helped the institution to carefully select and sequence its investments in extractive industries to ensure poverty reduction and protection of the natural resource base of developing countries. Instead, the Bank's tepid response to the EIR and its brushing aside of some of its central recommendations, such as strengthening governance systems and local capacities before investing in extractive industries, paves the way for business-as-usual combined with the use of some band aids for problems that can only be addressed by the more holistic approach advocated by the EIR.

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Oil and development:
The World Bank's test case in Africa

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It was this more holistic approach that African NGOs had called for when they campaigned for a moratorium on financing the Chad/Cameroon project until more democratic governance structures, respect for human rights and institutional capacities to deal with the environmental implications of a project of this magnitude had been put in place in their countries.

In response to their campaign and to international protests, the Bank made it a pre-condition for their financing that the Chadian government adopt a revenue management system intended to ensure that proceeds from the oil would be used for poverty alleviation and it provided additional loans for capacity-building meant to enable the governments to handle the environmental and social risks. African civil society organisations were not convinced that these measures were sufficient because they felt that there had to be some demonstration of government willingness and capacity before embarking on the project. The Bank's own Operations Evaluation Department (OED) reached a similar conclusion after reviewing the Bank's investments in extractive industries, stating that the Bank should abandon its "investment first" approach and make decisions based on the type of governance that actually exists in a given a country and not on hopes of what governance would be in the future.[1] Later, the EIR would echo this finding by recommending that governance be strengthened to be able to withstand the risks of major extractive projects *before* investments in the sector are made.

At the time of the Bank's approval of the project in 2000, and in its response to the EIR in 2004, the Bank rejected this sequencing approach to investments.

But should lessons from the Chad/Cameroon project not have taught the Bank otherwise? The Bank's press release issued on the day of project approval stated that the project presents "…an unprecedented framework to transform oil wealth into direct benefits for the poor."[2] Now that construction is mostly completed and oil has been flowing for one year, the Bank's internal assessment of how well this framework works expresses doubt: "How well these arrangements will function in practice remains to be seen."[3]

Indeed, the reports by the World Bank's own project monitoring bodies, the International Advisory Group and External Compliance Monitoring Group, document serious social and environmental problems ranging from threats to public health, especially the unchecked spread of communicable diseases such as HIV/AIDS, the lack of attention to land security for the indigenous peoples, waste management, soil reclamation and the loss of biodiversity.[4]

All agree that the Bank's efforts to build the capacity of government institutions has seriously fallen behind and that the African governments continue to be ill-equipped to fulfill their responsibilities in addressing, or even monitoring, the social and environmental consequences of the project. In addition, the promised regional development which was meant to ensure that project benefits would flow into the oil-producing region is more than four years overdue and administrative structures to access the 5% of oil revenues earmarked for the region do not exist.

The Bank's innovative measures to ensure fair and transparent management of the oil revenues have also hit serious stumbling blocks as the Chadian government continues to undermine the work of the Oversight Committee which was established to monitor implementation of the oil revenue management law.

While all these problems remain to be addressed, oil exploration in new areas is rapidly expanding. The additional oil, which will eventually flow through the World Bank-financed pipeline, is not subject to the revenue management law. Although the loan agreement between the Bank and the Chadian government established that all oil using the pipeline should be subject to the Bank's environmental and social policies, there are no indications that these policies are being adhered to.

What about the Bank's perennial argument that its participation in projects makes them better than if the Bank was not involved? Following this logic, there is no project bad enough for the Bank not to be involved in and improve it a bit at the margins. In addition, the riskiest projects often would not get off the ground without Bank participation. This was the case with the Chad/Cameroon project where the Exxon-Mobile led international consortium in charge of the project made it clear from the beginning that World Bank participation was a pre-condition for moving forward with the project. World Bank participation provided the consortium with a measure of political risk insurance and facilitated hundred of millions of dollars of co-financing from export-credit agencies and private banks.

Although touted by the World Bank as a new prototype and model development project, the Chad/Cameroon Oil & Pipeline project illustrates the soundness and relevance of the EIR recommendations related to governance, human rights and more effective social and environmental policies. If one of Mr. Wolfensohn's goals with the EIR was indeed to prevent future controversy, then the historic opportunity provided by his initiative was sadly missed.

Korinna Horta, Environmental Defense

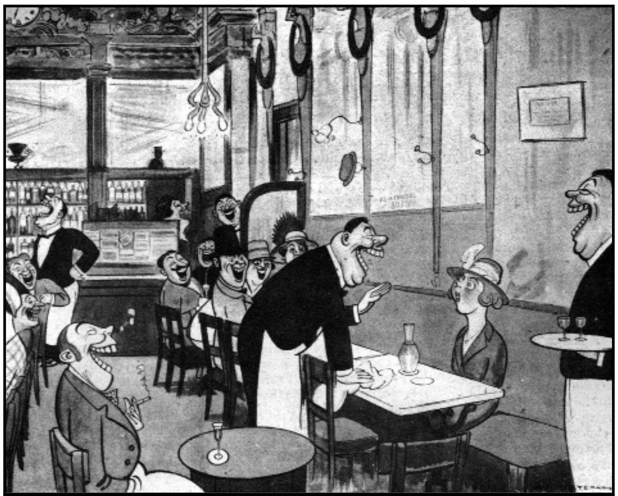
Notes:

1 OED "Evaluation of the World Bank Group's Activities in the Extractive Industries – Factoring in Governance", January 21, 2003
2 World Bank, Press Release, June 6, 2000
3 World Bank, Seventh Semi-Annual Report to the Executive Directors, April 28, 2004:2
4 These reports can be obtained at **www.gic-aig.org** and **www.worldbank.org**

If there's mess around your house, don't blame the dustman… talk to his managers

The Country Partnership Strategy (CPS) seems to be yet another example of the World Bank's inclination for playing with words, trust and perhaps also its own regional staff. This at least would appear to have been the case in the preparation of the CPS for the Slovak Republic in 2004.

The World Bank originally stated that it would prepare an update of the Slovak Country Assistance Strategy (CAS) but in the latter stages of the process took the decision to reformulate its work program in the Slovak Republic as a CPS rather than CAS because this partnership better reflects the Slovak Republic's current status and relationship with the World Bank[1]. But this change in terminology was not the reason why the Center for Environmental Public Advocacy (CEPA), the Slovak member of the CEE Bankwatch Network, followed the process closely.



"The man from the World Bank has phoned to cancel"

As the preparation of the Slovak CAS in 2000 lacked any meaningful consultations with the public[2], CEPA was constantly engaged in communication with the Bank's regional and local offices to ensure that the consultations in 2004 were open and meaningful. The Bank's local and regional offices agreed with all the requests and recommendations submitted by CEPA in terms of the form and the organisation of consultations. As a result, every NGO that wanted to was able to participate in the consultations, information on the role and the first draft of the CAS/CPS Document were released to participants in a timely manner, and the consultations were handled and their results summarised by an independent facilitator.

But this good impression did not last long. When the second draft of the CPS Document was finalised, CEPA found out that none of the comments and recommendations from the consultations, despite being correctly summarised in Annex B11, had made it to the main, binding text. The local staff explained this as anunwillingness on the part of the Slovak government to consider the issues raised by NGOs as priorities. For example, the very well presented and argued NGO comments regarding gender issues were completely removed.

In spite of the ever increasing gap between men and women's incomes (the 21,8 % difference in income in 1996 rose to 28 % in 2003), the World Bank has deemed that the problem of gender issues in the Slovak Republic is not something that it should help to overcome through its assistance program.

Via its lending and technical assistance the World Bank influences key economic and social reforms in the Slovak Republic, such as pension scheme reform. But when Slovak NGOs recommended the inclusion of Gender Mainstreaming into the technical assistance programs (as part of the CPS provisions), the Bank refused to include such a precondition into the binding text of the CPS, in spite of the fact it would be completely in line with its internal policy OP 4.20. This policy calls for the "design of gender-sensitive policies and programs to ensure that overall development efforts are directed to attain impacts that are equitably beneficial for both men and women."

The Bank admits that "Despite the progress to date in gender mainstreaming, the Bank's effectiveness can be improved by paying more systematic and widespread attention to gender issues in the context of its poverty reduction mandate." *(WB Gender Mainstreaming Strategy, Introduction)*. This case demonstrates that when something is not convenient for the Bank it is willing to circumvent its own policies.

CEPA subsequently appealed to the World Bank's executive directors via email, but this proved to be futile with no confirmations of receipt let alone replies coming from the directors. CEPA had no time to appeal to the Bank's directors by regular mail – despite the fact that the Bank's policies stipulate at least 45 days for the directors to process the CPS[3], it took them only approximately two weeks to read and approve the CPS Document.

The goodwill of the Bank's local office staff to organise open and meaningful CAS consultations with the public was not replicated by the 'higher powers' at the Bank. The fact that consultations with the public were meaningful does not help 'to fight poverty' (in this case of single female mothers) if all they influence is Annex B11 of the CPS Document. More work must be done with the Bank's executive directors to convince them to delegate more rights to the Bank's local staff and, more importantly, to make them respond to emails from NGOs and to observe the Bank's own policies.

Notes:

[1] Quote from a letter of the World Bank to CEPA from May 25, 2004
[2] Find out more information at
http://www.bankwatch.org/issues/mcas.html
[3] See the World Banks Procedure BP 2.11 (Article 8: "...at least 45 working days before Board presentation, the RVP submits to EXC six copies of the draft CAS package…")

Back To Controversy

In a document seen by Bankwatch, the IFC describes the lessons it has thus far (through April 2004) learned following its decision to approve a USD 250 million investment for the BTC pipeline in November 2003. Immediately catching the NGO eye is a section entitled *'IFC must engage with civil society, but may have varied results'*, where it is stated: "Increasingly sophisticated NGOs launch campaigns attacking the commercial, economic and legal basis of the projects rather than just environmental and social issues. NGOs now often hire lawyers, financial analysts and engineers to critique." The validity of these hired findings which informed the pre-funding NGO campaign is left to the reader's own judgement. Some on the circulation list may have found themselves struggling to recall any such critiques ever having crossed their desks.

One major irony of the recent checkered BTC history, however, is that key actors in this new great game don't have to be hired to offer their criticisms. In the fallout from the Georgian government's ordering of BP to down tools in its illegal construction work in the ecologically sensitive Borjomi valley (in August BP were on site for one week despite failing to provide contractually required environmental and risk assessment information), Georgian president Mikheil Saakashvili volunteered that, "We got a horrible contract with BP, horrible" (reported in *Transitions Online*, August 9). Preceding this, and raising major questions about the IFIs' and commercial banks' due diligence, were the startling testimonies revealed in the *Independent* on June 26 of several experienced pipeline experts who have worked recently on the Turkish section of the BTC project: "This project is unique. It's a complete mess-up … everything is being done badly. No one wants this project on their CV. It's an embarrassment … A welding inspector told me that the weld testing was rejecting 80% of the welds and had at one time been failing 100% (i.e. ALL of the welds had to be cut out and redone)…I thought I must have misheard him! (Usual is 6-8%)."

Such comments were not elicited through sophisticated NGO commissioning but instead illustrate the concern and frustration of experienced oil project engineers so perturbed by the manner in which the BTC pipeline is being built that, indeed, they decided to risk their livelihoods to draw attention to it. Their revelations detailed a catalogue of technical and management failures including: the ignoring of risks such as earthquake damage, and the firing of personnel who raised these problems; nepotism and the hiring of unqualified personnel; and damage to local settlements and businesses. Central to all of these gross malpractices is the bunker mentality pervading the BTC Company when it comes to sticking to the completion schedule. Adhering to the perverse logic that has prevailed throughout the lifetime of the project, completion milestones are regularly hailed as evidence of the benefits BTC is bringing to local people and the environment alike.

Oil leakage in Suraxani, Azerbaijan

Yet other recent press reports provide some urgent context on project leader BP's social and environmental magnificence. The *Financial Times* (August 7) reported the US Environmental Protection Agency's investigation into malpractices in BP's Alaska pipeline where allegedly the company "mishandled oil spills … had covered up corrosion; intimidated and harassed employees expressing safety concerns; and been negligent in starting a well that exploded in 2002, causing a spill and seriously injuring a worker." *Azeroil* (September 10) revealed that David Woodward, BP associate president in Azerbaijan, had unsuccessfully attempted to slap down the Azeri Ministry for Environment and Natural Resources over the Ministry's attempts to claim compensation for blatant breaches of Azerbaijan's Protection of the Environment Laws connected with BP's oil extraction. At the end of August, a Bankwatch coordinator, in Azerbaijan to shoot a film on the oil industry with Czech journalist colleagues, not only experienced severe harassment at the hands of pipeline security (Azeri colleagues also received indefinite threats from the state police; the Organisation for Security and Co-operation in Europe in Baku is currently monitoring the situation) but also uncovered many cases of BTC affected villagers who have been defrauded by the much vaunted land compensation process. In the village of Zayam in the Shemkir region, almost half of the landowners affected by the pipeline have not been compensated as they allege their documents have been falsified by an employee of the BTC Company.

Other alarming occurrences in the last few months include: the barring of Azeris and Georgians from April's BP annual meeting in London; the detention in May this year of Ferhat Kaya, the Kurdish human rights campaigner, following his attendance at meetings with those affected by the pipeline (eleven police officers have since been charged with beating and torturing him); and the brutal breaking up by police of peaceful village protests in Georgia. What of the major public lenders' reaction to these outrages? The comments of ▸

John Weiss, acting chief executive of the UK's Export Credit Guarantee Department which has backed BTC to the tune of USD 150 million, at a recent hearing of the UK parliament's trade and industry select committee are instructive: "I think the way we handled BTC is an indication of how it is going to be in the future."

Such head in the sand posturing is of course not unfamiliar to NGO campaigners who recall the IFC's blanking of a document detailing the BTC project's 173 violations of the World Bank's social and environmental criteria they presented to the Board of Directors as part of the pre-funding consultation process. In the IFC's 'Lessons learned' document we get what could be the first, albeit extremely tacit, acknowledgement that there may just after all have been something to the '173 violations' document: "Since most public comments are received at the very end of the disclosure period, if a project is scheduled for Board consideration soon thereafter, there may not be sufficient time to prepare a response to the comments. This issue should be examined in IFC's upcoming Disclosure Policy revision."

This, among other things, will be pursued by civil society organisations in the course of the Disclosure Policy consultations. But as for the continuing NGO scrutiny of BTC, uppermost in the international campaign's antennae is the determination that the contribution of at least USD 1.5 billion in public money mandates that the project be undertaken to the benefit rather than the endangerment of the public. A final, almost surreal, testament to the chicanery that has been a hallmark of BTC is again evidenced in the IFC document. Of the public consultation process: "It was difficult to strike a balance between listening to civil society organisations and communities and providing detailed responses to concerns raised. Detailed responses provided on the spot may have sometimes given the impression of defending the project as a fait accompli." It was a fait accompli but the gloves are now off. The concerns, and the voices expressing them, are many. The detailed responses are still few.

Troubling trends in the IFC's Social and Environmental Safeguards review

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enhance the safeguards, thus far it is giving much cause for concern. To begin with, the proposed revisions represent a major shift from a mandatory-compliance based model to a mainly discretionary approach. Released draft policy documents appear to be largely aimed towards accommodating private sector clients' needs, while not adequately ensuring the rights of affected communities. A World Bank internal review of the IFC policy update paper by the Bank's Legal and Environmental and Socially Sustainable Development Department (2 August 2004) states that:

"…an important problem is that the proposed IFC 'Performance Standards' are not performance standards; they are proposed rather as general principles allowing adaptability to the different nature and scale of the proposed project, the expected impacts, prevailing industry sector practices and the client's business capacity and available resources."

Among other troubling trends is the stakeholder consultation process itself. The IFC is pursuing an extremely rapid and selective plan for engaging external stakeholders on these critical policy revisions. Unlike past World Bank safeguard policy revisions, which have often involved several years of engagement on just one policy, the IFC is revising *all* its safeguard policies at once (plus its disclosure policy) and is holding external stakeholder consultations for only *four* months. In addition to the short duration, the translation of key documents has been neither timely nor suitably comprehensive. The documents that have thus far been translated into Spanish and Portuguese were available less than 25 days before the Latin America consultation. The IFC has committed to translation of the draft safeguards policies and the disclosure policy concept note into two languages per regional consultation.

The four regional consultations, which are by invitation only, take place between September-December this year:

- Latin America and Caribbean: Rio de Janeiro, September 27-29
- Asia and the Pacific: Manila, Philippines, October 27-29
- Africa: Nairobi, Kenya, November 29-December 1
- Eastern Europe, Central Asia, and Middle East: Istanbul, Turkey, December 13-15.

In addition to regional consultations, the IFC will be holding a series of topic and stakeholder specific meetings during the same time period. At this time, the following meetings are scheduled:

- September 16-17: meeting with Equator Banks, London
- October 4: meeting with NGOs during the World Bank/IMF annual meeting, Washington, DC
- Week of October 4-8: meeting with international trade union representatives, Washington, DC.

The IFC will seek Board approval of the revised safeguard and disclosure policies in February 2005. The IFC will be accepting comments on both policy revisions via mail, email, and website submission until December 17, 2004.

Heike Mainhardt-Gibbs,
Program Manager for Europe & Central Asia, Bank Information Center

▸ To obtain the draft policy papers and more information on the process, go to: **http://www.ifc.org/ifcext/policyreview.nsf/0/68f4f78db27903c085256ce8006cfdb9?OpenDocument**

▸ To read the Bank Information Center's Policy Update: Review of IFC social, environmental and disclosure policies, go to: **http://www.bicusa.org/bicusa/issues/international_finance_corporation/1619.php**

The carbon spin doctors: How the World Bank explains emissions trading to journalists

"Carbon emission trading, a vehicle for development. Is this a story that's worth telling? I think it is," Sergio Jellinek, a communications advisor at the World Bank told a room full of journalists at the Carbon Expo in Cologne in July.

Organised by the World Bank, the International Emissions Trading Association and Koelnmesse (Cologne Trade Fair), Carbon Expo was supposed to be "the Coming of Age of the Global Carbon Market". In fact only a few hundred people coughed up the EUR 980 entrance fee.

The first day of the Carbon Expo included an "interactive workshop for journalists". Charles Cormier, a senior training specialist on carbon finance at the World Bank opened the workshop with an introduction to the topic. Cormier's Powerpoint presentation explained that climate change was real, and that the details are described in the third report of the IPPC. "That's the International Panel on, er, well anyway it's the IPPC," he explained less than helpfully.

Later on, I met Cormier at the World Bank's Prototype Carbon Fund (PCF) stall in the Carbon Expo. I asked him for an interview about Plantar, an industrial tree plantation project in Brazil funded by the PCF. Plantar is by far the largest PCF project in terms of the amount of carbon emissions the project is supposed to save. "I don't know anything about Plantar", he replied.

At the workshop for journalists Sergio Jellinek explained that the World Bank was offering to help journalists "in terms of getting the story right". "You set the tone of the debate. It's a debate we want to be involved in," said Jellinek. "You are the masters of the decoding process," he added.

In his presentation, Sanjay Suri, a journalist with Inter Press Service, described carbon trade as "trading in what might have been" and pointed out that this is the first market ever created with the aim of obliterating itself. He asked whether this new commodity was simply a way of opening a new market for Northern companies to supply supposedly clean technology to the South.

The World Bank's Charles Cormier then gave a short presentation. Cormier accepted that carbon trade "is a very strange concept. It's a trade in emissions that won't be emitted in the future." He added that, "In itself it's a little bit of an experiment at the global level."Cormier explained that the Carbon Expo would be carbon neutral. The organisers had calculated how much greenhouse gas would be emitted by the trade fair and by the visitors in travelling to the fair. To "compensate" for these emissions Carbon Expo would buy carbon credits from a tree planting project in Tanzania.

The next presentation was from Richard Kinley from the UN Framework Convention on Climate Change. Kinley explained that under the Kyoto Protocol, "most" of a country's reductions in greenhouse gas emissions should be domestic reduction. Kyoto's flexible mechanisms (emissions trading, clean development mechanism and joint implimentation) can account for up to half of a country's reduction in greenhouse gas emissions.

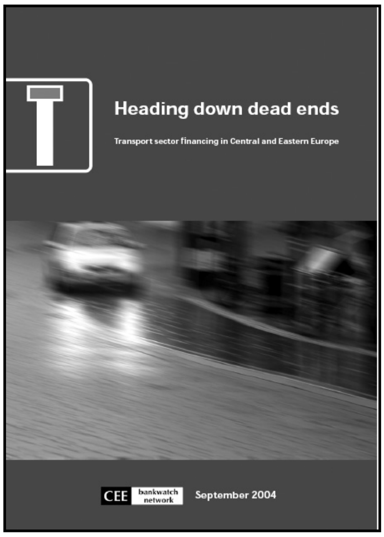
According to Kinley the criticism that the Kyoto Protocol is not a solution to climate change is not fair. "Kyoto was never meant to solve the problem," he explained. Kyoto is intended to be a first step. "Kyoto is important because it sends signals," said Kinley, continuing that he had liked Sanjay Suri's description of emission trading as "trading in what might have been". He said, "This is probably the first time in history that a new commodity has been created. It's not quite up there with money, but it's quite unique."

Next up was Franck Lecocq, a World Bank economist. He enthused about the new market in emissions and said that this year emission trading is likely to be twice as big as last year. I asked Lecocq how he would respond to Sanjay Suri's question about whether carbon trading was little more than a way of opening up a market for Northern companies selling technology to the South, while allowing companies to continue polluting in the North. I asked why the World Bank is involved at all, particularly since the World Bank's mission is supposed to be to alleviate poverty, and not the creation of new commodities.

Without blinking, Lecocq brought up another slide in his Powerpoint presentation. The slide explained that the World Bank's goal is to relieve poverty and that climate change will affect the poor. Therefore the World Bank is promoting trade in carbon emissions. "I forgot to show this," he said.

None of the presentations at the World Bank's workshop explained how carbon trading would address the issue of climate change. Neither did they explain why the World Bank is using taxpayers' money to sponsor the creation of a new commodity which will primarily benefit Northern industry. This was left to Ken Newcombe, Senior Manager of the World Bank's Carbon Finance Business. In a press conference immediately following the workshop for journalists, Newcombe said, "The World Bank is reducing the risk for private investors."

Chris Lang is an environmental researcher based in Frankfurt. This is an edited version of an article which first appeared in WRM Bulletin 84, July 2004.

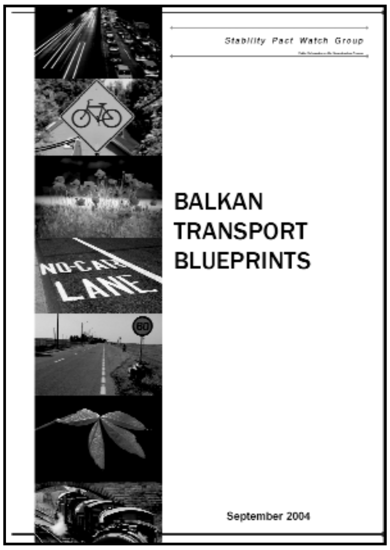


Heading down dead ends: Transport sector financing in Central and Eastern Europe

Bankwatch has published its analysis of transport sector investments in Central and Eastern Europe. The result of a two-year gathering of national cases and analysis, it reveals that instead of the promotion of environmentally sound transport alternatives, grants and loans from the EU funds and the European Investment Bank are creating car-dependent societies in the new member states. *Heading down dead ends* presents a comprehensive set of recommendations for the European institutions which will help ensure that their transport investments in the region are in line with the EU's Sustainable Development Strategy. To request a copy of this new study, contact **press@bankwatch.org** or view it at **www.bankwatch.org**.

Invisible hands: how the EIB shapes Europe

A new film from Bankwatch, Friends of the Earth International and Foundation Zora sets out to uncover Europe's largest yet secretive bank and focuses on two of its recent controversial investments in the Slovak Republic and the UK. The film's findings will come as a shock to those who expect exemplary institutional practice from major European public bodies like the EIB. If you would like a copy of this 30 minute film, contact **main@bankwatch.org**.



Balkan transport blueprints

A new study from the Stability Pact Watch Group identifies the unfortunate discrepancies in the IFI investment programs underway in the Balkans and the real transport sector needs in the region. With detailed overviews of the situation in Bulgaria, Macedonia and Romania, the Blueprints suggest that significantly more attention should be paid to the condition of 2nd and 3rd class roads and that more IFI and EU investments should be pledged for small scale roads, railway maintenance, public transport and bicycle lanes rather than the current unsustainable concentration on highway financing. The study is available at: **www.stabilitypactwatch.info**. Copies can be requested by writing to: **fidankab@bankwatch.org**.

Need some ERUs? Ask the World Bank's PCF how to get more

The chase for cheap carbon credits is accelerating and the World Bank Prototype Carbon Fund (PCF) is doing its best in Central and Eastern Europe to accommodate increasing demand. In early 2004 the Czech government signed a Letter of Approval on 200 000 emission reduction units (ERUs) to be purchased from the Decin Geothermal District Heating Project by the PCF. Termo Decin, a local private company, is reducing emissions by replacing gas and oil fuelled boilers with a combination of geothermal water and gas boilers. While the project itself is generally acceptable, the disclosure of information and the baseline were concerns raised by CEE Bankwatch at a meeting with Czech authorities and the World Bank in July this year.

The story begins in the mid-nineties when a first Joint Implementation (JI) project for the northern Bohemian city district heating was approved. USD 8 million was invested in the switch from coal fired boilers to gas boilers, combined heat and power and increased energy efficiency. However, a few years later, the PCF's calculations assumed that for the remaining heating units a coal version would be the right option.

Why this change of heart? Take seven heating units fired by gas and oil, assume that the price of gas is likely to rise and at the same time the price of coal is likely to fall, add a little bit of private investor thinking, and you get the most likely least cost business as the usual scenario: 92 % for coal, the rest for gas. The majority owner of the heating units, a private company MVV, provided the PCF with numerous possible heat supply systems that would be the most likely options in the absence of the JI project. Although these scenarios were not publicly disclosed, it's hard to imagine an investor who would rather spend three times as much if the profit (e.g. saving on lower costs of fuel) can not be guaranteed. Furthermore, it has to be taken into account that conversion from gas to coal has not been done so far and is in conflict with the long-term environmental policy of the municipality.

A further point is that the Decin Baseline Study violates the PCF's own generic baseline for Czech district heating projects. For example, the generic baseline requires 85% efficiency for coal fired boilers, while the Decin baseline reaches only 70%. In a response to this point, Jari Vayrynen, an environmental specialist hired by the World Bank, replied "The generic method was used as a starting point and the Decin Baseline Study was presented as an application of a similar, not exactly the same, approach."

All of this leads to the conclusion that, in spite of how bizzare it may appear, the PCF's specialists can calculate as many ERUs for a single project as they wish. As the Decin project was considered as part of the start-up of the Umbrella project between the World Bank and the Czech Energy Agency, it is vital that the PCF reconsiders its baseline policy. Otherwise the Decin project looks likely to set an unfavourable precedent at a time when other small renewables projects are under development as part of the Umbrella project.

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