Bankwatch Mail

CEE bankwatch network

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Sakhalin II hots up

It may be the coldest days of winter in the Russian Far East but action on the Sakhalin II project is getting red hot.

Indigenous peoples protest

January 20-24 this year saw over 200 members of Sakhalin Island's Nivkh, Uilta, Nanai and Evenk peoples endure minus 30 degree Celsius temperature to blockade the Sakhalin I and II projects. They were protesting the projects' impacts on their native fisheries, reindeer pastures and overall livelihoods, demanding an independent cultural impact assessment and a development fund for Sakhalin's indigenous people. Indigenous leaders on Sakhalin Island, RAIPON (Russian association of indigenous people) and NGOs sent letters to EBRD President Jean Lemierre and to several Export Credit Agencies (ECAs) urging them to condition any financing of Sakhalin II on these demands. Indigenous leaders are promising more protests if these demands are not met.

Independent expert report expected to highlight risk of whale extinction

On February 16, the International Scientific Review Panel (ISRP) will release its report concerning Sakhalin II project impacts on the critically endangered Western Gray Whale. Negative impacts on the Western Gray Whale and other concerns have led EBRD to thus far conclude that the Sakhalin II Environmental and Social Impact Assessment is "unfit for purpose", which has stalled up to USD 5 billion in financing from it and several Export Credit Agencies.

The ISRP was commissioned at the request of EBRD and ECAs to provide potential project financiers with an independent expert scientific evaluation of project impacts on Western Gray Whales, including alternatives and mitigation measures. The ISRP report is expected to highlight some of the chicanery which has been a hallmark of the Sakhalin II project so far. As one example, the Terms of Reference for the ISRP and EBRD policy requires an assessment of alternatives.

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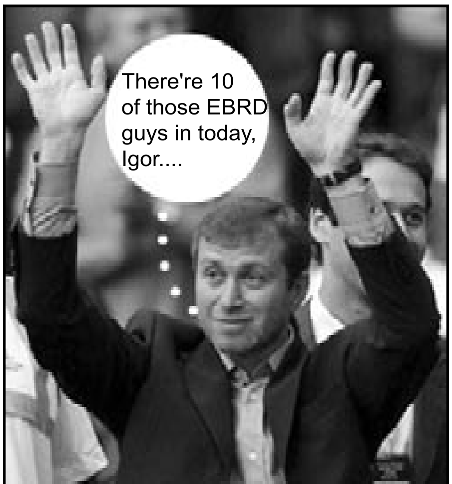
"East and West are together!" This, one of the slogans of the Orange revolution in Ukraine, amply sums up civil society's solidarity during the recent consultations on the European Bank for Reconstruction and Development's new Energy Policy. The strong message delivered to the EBRD: phase out investments into fossil fuels and nuclear energy.

When the EBRD was founded in 1991 it was the first international financial institution to have in its founding charter a requirement to promote environmental protection and sustainable development across all of its lending activities. Since then the bank's energy lending has not lived up to this requirement. The EBRD's existing energy policy is problematic as it does not sufficiently tackle the pressing need to combat climate change and support alternative sources of energy and energy saving. In recent years the EBRD has provided substantial funding for the extensive development of the oil and gas sectors in Russia and the Caspian Region, while failing to adequately protect the environment and the rights of local populations. The EBRD is also the *only* regional development bank which supports projects within the nuclear industry including the completion of new reactors.

In 2004 the EBRD announced that it would merge and review its Energy and Natural Resources Policies and as part of the consultation process conduct public meetings on the new policy. Three regional workshops, involving Bank staff, NGOs and academics, have taken place within the last month in London, Sofia and Moscow.



More on the Abramovich-EBRD war of words inside.

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Sakhalin II hots up

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Yet, the project operator, Royal Dutch/ Shell Group, has stated that the company does not want to consider any alternative location for an off-shore platform to a safe distance away from the adjacent Western Gray Whale's feeding habitat.

A scofflaw project

On January 17, the Yuzhno-Sakhalinsk court on Sakhalin Island ruled against environmental permission for a temporary jetty being built for Sakhalin II. The jetty is intended to support the construction of the Sakhalin II Liquid Natural Gas (LNG) plant, one of the largest of its kind in the world. Fishing associations, environmental groups, and government authorities are concerned that the jetty and the LNG plant will harm the rich fisheries of Aniva Bay, which is critically important for marine biodiversity and the fishing industry, which is the mainstay of the island's economy. Adding to Sakhalin II's legal problems a South Korean businessman was arrested for allegedly smuggling onto Sakhalin Island radioactive testing devices destined for the Sakhalin II LNG plant contractor, Daewoo. The source of radiation, thought to be iridium 192, allegedly exceeded the normal levels of radiation by between 20 and 200 times.

Community crisis

Finally, a report released in January by the Korsakov-based community organisation, "Knowledge is Strength," documents damage from construction of the Sakhalin II LNG plant to the nearby city of Korsakov. The report documents a number of very serious negative impacts on Korsakov, including the overwhelming of the water, waste, housing, medical and transportation infrastructure. Korsakov has suffered the brunt of 1,500 imported workers that have descended on the area, overburdening its social services and increasing communicable diseases including AIDs and tuberculosis.

The report demonstrates that many of these impacts are due to rampant cost-cutting tactics by Sakhalin II contractors, harming the city of Korsakov and project workers alike. The report reveals that the promise of employment for Sakhalin residents has fallen far short, and that plans to compensate Korsakov are grossly insufficient to prevent a worsening community crisis. In Autumn 2004, another 1,500 workers arrived, raising the total additional load on the infrastructure to 3,000 people. As a result, a local population that originally welcomed Sakhalin II now looks at it with increasing aggression.□

Doug Norlen, Pacific Environment

► Study on the damage of the LNG plant to the the inhabitants of the town of Korsakov:
http://www.eca-watch.org/problems/eu_russ/russia/LazebnikKorsakovLNG_04dec04.htm

► Pacific Environment on Sakhalin II project:
http://www.pacificenvironment.org/russia/sakhalin.htm

► Sakhalin Environment Watch on Sakhalin II project:
http://www.sakhalin.environment.ru/en

EBRD: it's time to combat climate change!

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Eastern and western European NGOs were unanimous in their main demand to the EBRD: within a reasonable timeframe, withdraw from financing the extractive fossil fuel and nuclear projects and re-channel the resources into green and sustainable energy projects such as energy conservation, increased energy efficiency and renewable energy sources of energy.

The NGOs were also united in calling on the EBRD to:

• set targets for financing energy efficiency and renewables

• monitor and ensure that the so-called "transition impact" is based on a set of clear and measurable criteria, in order to conclusively prove that EBRD projects serve the interests of people

• ensure proper revenue and contract transparency in extractive industry projects and provide an open and public planning process to fairly distribute revenues in any extractive projects

• establish "no-go zones" for extractive industry projects

• conduct accounting of greenhouse gas (GHG) emissions caused by funded projects as a practical way in which to decrease the EBRD's GHG footprints.

The bank was strongly criticised for its failure to address and mitigate negative social and environmental impacts caused by its activities, as well as for its support for the export of resources and energy, serving the interests of multinational corporations and western governments before local countries' needs. Indeed, an NGO representative from Azerbaijan underlined the gap between the EBRD's theoretical intentions and the stark realities – a case in point being the recent Baku–Tbilisi–Ceyhan oil pipeline project which does not bring economic development to Azerbaijan but instead serves to enrich companies and corrupt governmental officials.

Despite the general critiquing of the bank, many participants noted that the consultations were conducted in an open atmosphere. Bank representatives were ready to listen and indeed agreed on some points: in Moscow as well as in Sofia it was affirmed that the EBRD is willing to finance more small renewable projects. Such an atmosphere was not even spoiled by the attempts of the professor of the Russian Academy of Science, co-facilitating the Moscow workshop, who treated NGOs as students attending his lecture, in the process attempting to cut presentations and limit the number of speakers.

Another concern was raised in relation to organisational issues: many participants experienced problems in communicating with the workshops' organisers (EIR Development Partners, Greece); there were no criteria set in advance for the selection of participants eligible for travel reimbursement which limited the number of people able to attend the workshops.

As a follow up to the consultations, an international coalition of NGOs has developed a common set of demands entitled "NGOs' vision of the new EBRD Energy Policy" which has been endorsed by over 100 NGOs from Europe, Asia and across the world. The EBRD will accept comments to the existing policy until the end of March and the new policy will be drafted within the next few months. This draft will then be open for commenting for 45 days. The Bank's Board of Directors, comprising representatives from European and international governments, should then adopt a new policy based on the Management's recommendations.

CEE Bankwatch Network believes that this consultation process can only be fruitful and that the EBRD, with help from civil society, will take the lead in promoting revolutionary changes in the region's energy sector which address the demands of today while serving the interests of the future.□

► Find out more about the EBRD's Energy Policy review at:
http://www.ebrd.com/about/policies/sector/energy/new.htm

Extracting benefits: Moving beyond voluntary revenue transparency

In order to provide benefits to all citizens and contribute to poverty reduction, the extractive industries of oil, gas, and mining need to be managed responsibly and equitably. Unfortunately, responsible management is typically not the case and many resource-rich countries are among the most corrupt and poorest countries in the world.

One fundamental step towards responsible management of the extractive industries is revenue and contract transparency. Increasing transparency opens up the decision-making process to public debate and moves the process towards more prudent and equitable management of extractive industry resources.

By virtue of their unique position as interlocutors with and financiers of both governments and the private sector, and as development policy advisors with significant funding leverage, the International Financial Institutions (IFIs) have the potential to exert considerable influence on the management of the oil, gas and mining sectors in borrowing countries. A recent review conducted by the Bank Information Center (BIC) of extractive industry revenue and contract transparency practices of the IFIs concluded that although some IFIs are supporting selective activities to promote transparency, overall the IFIs should be playing a much more proactive role to systematically advance transparency across all IFI extractive industry activities and in all member countries.

The four IFIs covered by the BIC review (World Bank, IFC, EBRD, and IMF) all publicly endorse the Extractive Industries Transparency Initiative (EITI), a voluntary approach for governments which began in 2002 headed by the UK Department for International Development (DFID). Although these IFIs are widely encouraging governments to increase the transparency of transactions with extractive industry companies, overall the IFIs lack concrete policy commitments and mandatory revenue and contract transparency requirements for lending (with the exception of a few mega-scaled pilot projects, such as the BTC and Chad-Cameroon pipelines).

For example, the World Bank Group (WBG) Management Response to the Extractive Industries Review's recommendations on revenue and contract transparency included vague language as to what is actually required, had no contract transparency for "non-significant" projects or policy lending commitments, and only provided encouragement for voluntary commitments by governments.

Likewise, there are no WBG or EBRD operational policies (such as the Natural Resources Policy or Information Disclosure Policy) that specify any revenue or contract transparency requirements that these institutions must apply to lending operations. These institutions also do not disclose any relevant sections of their loan agreements that may contain project transparency requirements, which makes it difficult for the public to hold corporations accountable. Similarly, the IMF's general approach to governments and revenue transparency is also voluntary. However, this general voluntary approach has not precluded the IMF from at times requiring specific revenue or budget transparency conditionailities, such as audits, for an individual country lending program. Furthermore, the IMF overall has tended to make strong statements calling on governments to go beyond the EITI voluntary approach.

Given the importance of revenue and contract transparency to render more effective and more equitable management of the extractive industries, it is essential that the IFIs move beyond voluntary rhetoric to concrete commitments and, when relevant, mandatory transparency requirements for the extractive industries and beyond. To begin with, several key institutional policies and country-level activities need to be revised and strengthened, including: information disclosure, energy, and natural resource policies, and activities related to investment promotion commissions, foreign investor's councils, IFI country strategies, Poverty Reduction Strategy Papers, and IMF Article IV Consultations. The BIC document contains a brief account of the current status of these policies and activities and provides some suggestions on how to strengthen transparency within them. Currently, there are three important opportunities for public input to the IFIs on extractive industry transparency: the IFC's Information Disclosure Policy revision, the EBRD's Energy Policy review, and the IMF Draft Guide on Resource Revenue Transparency.

With regards to the IFC Information Disclosure Policy and the EBRD Energy Policy, at a minimum both policies should clearly reflect the following revenue and contract transparency requirements:

• Public disclosure of all revenue payments (including royalties, taxes, commodity based payments, signing bonuses, etc.) made to governments and their agents by all extractive projects, including those made via financial intermediaries;
• Public disclosure of all revenue payments received from the extractive industries by all governments receiving loans or technical assistance from the IFC or EBRD;
• Public disclosure of key contractual agreements, such as Host Government Agreements (HGAs) and Production Sharing Agreements (PSAs), for all extractive projects funded by the IFC and EBRD; and
• Mandatory disclosure of the transparency-related requirements contained in IFC/EBRD loan agreements and investment contracts with sponsors.

To contribute input to these policies and the IMF's draft document, please see the details provided in Box 1. A copy of the complete BIC document is available in English and Russian at: *http://www.bicusa.org/bicusa/issues/Revenue_Transparency_in_EI.pdf http://www.bicusa.org/bicusa/issues/IFIs_Revenue_Transparency_rus.pdf.*□

Heike Mainhardt-Gibbs, Bank Information Center

Box 1.
More information and submitting comments:

► The IFC will be accepting comments on the Disclosure Policy until 28 February 2005. It is further planned that the final draft Disclosure Policy will be released in April 2005 for a 30-day public comment period. To obtain draft policy papers and the IFC process schedule, go to: *http://www.ifc.org/policyreview*. For more information on NGO activities surrounding the consultation process go to: *http:// www.grrr-now.org* or contact Bruce Jenkins, *bjenkins@bicusa.org.*

► The EBRD is accepting comments on the existing Energy and Natural Resource policy documents until 30 March 2005. Thereafter, it is expected that the Draft Energy Policy will eventually be available for a 45-day public comment period. Comments should be sent to: *energypolicyreview@ebrd.com*. For more information go to: *http://www.ebrd.com/about/policies/sector/energy/new.htm*.

► The IMF is accepting comments on the Draft Guide on Resource Revenue Transparency through 18 February 2005. A copy of the draft may be obtained in English and Russian at: *http://www.imf.org/external/np/fad/2004/grrt/eng/index.htm http://www.imf.org/external/np/fad/2004/grrt/rus/guider.pdf*.

EU Funds: Quantity and quality must go together

Discussions on the EU budget for 2007-2013 – the so-called financial perspectives – have divided Europe. The outcome of the political struggle will have a major impact on Europe's citizens, economy and environment for many years to come.

A year ago, the European Commission fired the first shot by proposing to set the expenditure ceiling at 1.24 percent of the EU's gross national product. The six net contributors to the EU budget (Germany, France, UK, the Netherlands, Austria and Sweden) promptly refused, then spat out a figure of 1 percent as an absolute maximum and battened down the hatches in preparation for an almighty Brussels tug-of-war. The political debate has since then been primarily focused on the issue of the budget ceiling, i.e. the quantity of money at the EU's disposal. Yet, an equally important issue is the quality of future spending. The budget proposal is accompanied by a package of regulations that will decide how the money is spent.

For too long, major EU budget lines such as the agricultural subsidies and regional funds have been spent inefficiently by rewarding intensive agriculture and supporting damaging infrastructure. Thus they have often worked against the achievement of the EU's own declared environmental objectives and helped create high hidden costs that are subsequently thrust on society (costs for the clean-up of pollution or health care).

The overall vision of the Commission's package for 2007-2013, which is prefaced by an aspirational quote from Antoine de Saint-Exupéry ("As to the future, the task is not to foresee it, but to enable it."), and the accompanying package of regulations is not balanced. There is a danger that, like Saint-Exupéry's plane, the proposals will veer badly off course. The term 'sustainable development' in the Commission proposal refers in reality to 'steady and constant economic growth', rather than development which meets the needs of the present generation without compromising those of future generations.

The decision taken recently by new Commission President Barroso to refocus the Lisbon strategy on economic growth and sideline the social and environmental parts of the agenda have further reinforced the bias in the budget proposal. Focusing only on economic growth and competitiveness, without defining a clear direction towards a sustainable Europe, brings us back to the flawed development models of the 1950s. The exclusive focus on growth misses several key challenges of the twenty-first century.

First, the financial perspectives should aim to make Europe the most resource efficient economy of the world. Significant increases in energy and resource efficiency will improve competitiveness, reduce dependency on oil imports and other resources, encourage innovation, create jobs and improve the environment. It is also an imperative for global justice, leaving sufficient resources for developing countries to meet the needs of their populations.


"Mrs Thatcher's not involved in the budget negotiations this time, is she?"

Second, aiming to become the most competitive economy in the world does not mean that Europe will necessarily increase the quality of life of its citizens. On the contrary, focusing rigidly on such a goal may, if anything, lead to cutbacks in public welfare and social rights, and increases in the workloads and stress levels of citizens.

Third, as reports from the European Environmental Agency clearly demonstrate, much more needs to be done to tackle environmental problems: wildlife continues to decline at an alarming rate and harmful climate change effects are increasingly being felt in Europe and the rest of the world. If targeted correctly, the EU budget could help both to meet these major challenges faced by Europe and to deliver on key EU environmental commitments such as 'halting biodiversity loss by 2010' and reducing greenhouse gas emissions under the Kyoto treaty.

So what would the budget look like if sustainability really mattered? It's worth looking at the example of regional aid (structural and cohesion funds) and Trans-European Transport Networks (TEN-Ts), both of which will, for better or worse, shape the long-term development of central and eastern Europe. According to the Commission's proposal, regional funds are supposed to overtake agricultural subsidies and become the largest item in the EU budget with EUR 336 billion to be spent in the period 2007-13. On top of that, EUR 20 billion has been proposed for the TEN-Ts. A package of new regulations and special EU strategy guidelines are going to set the rules and priorities for these funds.

However, whilst the proposals do bring some small improvements, they are far from ensuring sustainable development and the efficient spending of money. In terms of the rules, more checks on the operation of the funds and more transparency is needed. Before money is disbursed, proper needs assessments, cost-benefit analyses and environmental impact assessments must be carefully carried out in order to avoid costly, inefficient or damaging investments. Financing must be rejected for projects that breach the rules. This has not been the case so far.

Citizens and NGO watchdogs must be given a greater say in the use of the funds to offset the disproportionate influence of construction lobbies gearing up to profit from the billions in the EU coffers. Otherwise taxpayers' money will be spent on economically reckless and environmentally damaging mega projects such as the planned Danube – Oder – Elbe waterway and exorbitant, unnecessary motorway construction.

As for the funding priorities, these need to be radically shifted to promote efficiency. Across CEE, where energy use per unit of GDP is twice as high as in the old member states, the funds could help secure massive energy savings and efficiency gains for our region. In the waste sector, recycling and waste reduction projects are cheaper and provide more jobs in comparison with landfill and incineration. Equally, increased funding for education and training would bring clear economic benefits. In order to create the knowledge-based economy that the Lisbon agenda was supposed to promote, the EU needs to invest in human brains rather than in concrete.

The early stand-offs in the headline budget debate have seen the Commission and Parliament fighting for a higher cap, and rightly so. If the budget is capped at 1 percent of EU GDP, there may be little left of the regional funds with the same applying to solidarity between the richer and poorer parts of Europe. But unless there is a major improvement in the rules and funding priorities to prevent the misallocation of taxpayers' money, it is going to be difficult to persuade the net contributors to stump up more cash in the first place.□

Kresna victory: Sofia rapped over Bern Convention breaches

The best news for the Bulgarian environmental movement in recent times resulted from a lobby trip of Bulgarian NGO representatives to the 24th meeting of the Bern Convention Standing Committee in Strasbourg, November 29 - December 3 2004. The Standing Committee opened a case file against the Bulgarian government on account of its failure to comply with the Bern Convention provisions.

The protection of the Kresna gorge, one of the most valuable biodiversity sites in the Balkans, was threatened by plans to construct the Sofia-Kulata motorway, part of Trans European Corridor 4. The Bern Convention was asked to examine the case four years ago by a group of Bulgarian environmental NGOs.

The Bern Convention aims to ensure the conservation of wild flora and fauna species and their habitats, with particular attention given to endangered and vulnerable species. Bulgaria ratified the Convention in 1991 and as a contracting party should take all appropriate measures to ensure the conservation of the habitats of wild flora and fauna species and in its plans should give due regard to the conservation requirements part of the Convention. In 2002 the Bern Convention Secretariat sent a team of experts to make an on the spot appraisal of the threats to the conservation of the Kresna gorge. The report from the visit concluded, “Kresna gorge could not bear any additional infrastructure development”. Thus, in December 2002, the Bern Convention Standing Committee adopted a recommendation to the Bulgarian government to: 1) develop alternatives for the construction of the motorway; 2) ensure adequate protection of the territory; and 3) maintain a dialogue with NGOs and affected communities on the case.

“Bulgarian government attempts to lead the Bern Convention Committee a merry dance get amputated.“

Over the last two years Bulgarian green groups have regularly informed the Bern Convention Standing Committee and Secretariat about the development of the case. There has been no sign of progress in the implementation of the Convention recommendations; instead they remained concerned about further threats resulting from the unwillingness of the Bulgarian Government to take appropriate action to protect the Kresna gorge.

Last year the Sofia-Kulata motorway was included as a priority project under the new guidelines for the development of the Trans European Network - the deadline for construction is 2010. This entails very short deadlines for the development of adequate Environmental Impact Assessment (EIA) procedures and the design of alternative alignments for the section passing through the Kresna gorge region. Meanwhile the upper part of the Sofia-Kulata motorway is under construction with support from EU funds despite an inadequate EIA. At the same time a lack of adequate legal protection permits activities that impinge on the protection value of the gorge such as the construction of small hydro dams and plants for charcoal production.

Therefore, in their last report from October 2004 to the Bern Convention Standing Committee, the Bulgarian groups, supported by the Royal Society for the Protection of Birds, Friends of the Earth and CEE Bankwatch Network, asked for the opening of a file on the case. The Standing Committee adoption of the NGOs’ request is a very strong message to the Bulgarian government about the need to follow its obligations under the Bern Convention and amply illustrates the vital role to be played by NGOs in the independent monitoring of governmental activities. The authorities in Sofia are reportedly seething at this development. They would be better off getting on with starting regular reporting on what they are actually doing to implement the Bern Convention Recommendations.□

► Bankwatch website on Kresna motorway project:
http://www.bankwatch.org/issues/transport/kresna/mkresna.html

New Bulgarian coalition formed to optimise Structural Funds for 2007-13

Earlier this month, 14 Bulgarian NGOs established an informal coalition to monitor the Structural Funds during the next EU programming period (2007-13). The coalition will work to improve the programming process of the funds for Bulgaria and to promote better monitoring and evaluation of their implementation after 2007. The coalition’s main goal will be to ensure as far as possible that structural funding for Bulgaria beyond 2007 is used to promote sustainable development practices, respects environmental legislation and suitably enshrines democratic participation at the local, regional and national levels. For the period 2007-2009, the EU’s financial framework has earmarked over EUR 4 billion for Bulgaria.

Several NGO members from the coalition, which includes Bankwatch member groups Centre for Environmental Information & Education and Za Zemiata as well as the national groups of Friends of the Earth, BirdLife and WWF, are already involved in the various activities related to the EU’s pre-accession funding (ISPA and SAPARD Monitoring Committees) and in activities within the planning process for 2007-13 (working groups for Operational Program Environment and for Operational Program Transport).

It is hoped that the lessons learned during the pre-accession funding period will be used to develop better operational programs in the future. Indeed a prime motivation for forming the coalition stems from concerns already emerging from the initial activities of the working groups for both the Environment and Transport Operational Programs where the leading Bulgarian ministries have been noticeably shy about following obligatory procedures such as Strategic Environmental Assessment.

Teething problems also exist with the elaboration of the National Development Plan, the main framework which will guide Bulgaria’s structural fund spending. A lack of updated information needs to be rectified, as Petko Kovatchev from CEIE explained: “There are no environmental NGOs involved in the preparation of the National Development Plan and very little information is obtainable from public sites such as the website of the Plan’s coordinating agency.”

The coalition members welcome interest from other Bulgarian NGOs whether they are focused on environmental or other issues.□

DOE-no! Another pointless mega-project

If an under-utilised rail network exists then why build a multi-billion euro canal right next to it?

The Danube-Oder-Elbe Canal, the object currently of Czech environmentalists' scrutiny, has a special status. The idea to realise the project has been around for centuries, rearing its head every generation or so. The renewal of optimism for the project that we are witnessing at the moment is connected to EU accession and the tempting smell of the EU funds available for transport projects. The plan for the inland waterway between the Danube, Oder and Elbe rivers with its potential first phase from Vienna/Lobau to Breclav may, among other features, involve pumping water uphill from the Danube to the March and Upper Oder area. The project's overall costs could total tens of billions of euros.

The first phase of this mega-project is included among the Czech Republic's priorities for the European Cohesion fund priorities. The Canal itself is also included in the Annexes of the EU Accession treaty as part of the Transport Infrastructure Needs Assessment scheme. The main lobbyist for the project is the Czech-based Association Danube-Oder-Elbe (ARGE DOEK) that includes the Harbour of Vienna among others. ARGE DOEK's intentions are also reflected in the draft of the new Czech transport policy that was published on the eve of 2005. The draft states that based on an economical-ecological study (which has yet to be provided to the public; there is a court decision pending on this point) the preparatory steps will be taken in cooperation with Poland, Austria and Slovakia to link the Czech Republic with the Danube and Oder navigation areas. Based on information available at the moment the aim is apparently to have the first part of the Canal (the Danube-Breclav link) operational by 2012.

There are numerous doubts about the need for this project and the benefits it will supposedly bring. The frequently cited political 'backing' for the project, the mantra of the Commission's 'shift from roads' strategy, is a myth: the Commission's own projections fail to prove that investments into inland waterway transport could achieve such a shift. For the period 2000-2020, it is predicted that freight road traffic will increase by 96 percent and freight rail volumes by 120 percent. And water? Currently in the new member states the inland waterway transport share is 2,4 percent; in 2020 it will be 2,8 percent. In short, a meaningful reduction in the number of lorries on our roads does not look like being achieved if these projections are anything to go on.

Environmental NGOs are not only questioning this Canal project but also the overall Commission plan for traffic intensification. Instead of sacrificing the landscape and precious ecosystems in the transit countries there is a tremendous need for fairer traffic pricing, traffic demand reduction and the efficient use of already existing infrastructure. All along the proposed Canal link and the March, Oder and Elbe rivers there is an electrified rail network. Not only are numerous sections of these lines undergoing upgrades but the railways in the area still have operational reserves: it is estimated that they carry only 60 percent of their total freight capacity.

Transport demand on the Canal itself is also a highly questionable issue. The data from such waterways like Oder, Elbe in Germany or the Rhein-Main-Danube Canal show that projections of the demand for their services have been significantly exaggerated: the real volumes are 2,5–6 times lower than those projected. Previous projections for the Danube–Breclav/Hodonin section also seem excessive. In the beginning of the 1990s, 18-30 million tons were expected annually. Such a level is not even being achieved on the heavily used Danube section between Bratislava and Gabcikovo. In the last few years ARGE DOEK has reduced its projection to 5 million tons per annum and has started to stress other potential functions of the Canal such as a recreational role, renewable energy use, irrigation and flood prevention.

«You know, they even have play rooms on the trains these days.«

In 2003 environmental NGOs from the Czech Republic, the Slovak Republic, Germany, Austria and Poland founded the "Life for Danube, Oder and Elbe Rivers" Coalition with the aim of creating awareness about the project. It has also formally appealed to the European Commission to assess the whole project (not just its separate sections) via a Strategic Environmental Assessment process and to prepare a cost-benefit analysis for all relevant options, including a comparison with other transport modes. The Coalition is adamant that if such an assessment concludes that construction of the Canal cannot happen without the violation of EU environmental legislation then the project should be struck from the national and international plans, operational programs and sectoral policies.□

► For further information about the DOE canal project, visit: *http://www.hnutiduha.cz/canaldoe.htm*

The Memory Hole

"[EIB] board members presided over banks that received millions of euros in credit lines, which they could lend to other companies, collecting their own fees in the process. In one case, a French-Belgian bank, Dexia, received more credit lines than other rival banks in France during a five-year period ending in 2004. During that term, Dexia's chairman was on the EIB board."

International Herald Tribune, August 18, 2004

Six months later, and with no changes to the EIB's Code of Conduct in sight…

"You must be really crazy if you start a debate on conflict of interest ... It must be aggressive idiosyncrasy to attack the EIB ... I don't defend our Code of Conduct, I support it. You could try to find a better issue to attack us on than conflict of interest..."

Wolfgang Roth, EIB Vice-president, EIB press conference, February 3, 2005

EBRD transport policy: How the transition countries can escape the "transit" ghetto

By the end of this month, the European Bank for Reconstruction and Development (EBRD) will have approved its new transport policy which will guide the bank's transport lending for the next four years. CEE Bankwatch Network has been calling on the EBRD to ensure that the new policy puts the EBRD's transport sector investments onto a more sustainable track.

Bankwatch has recently charted the transport system crisis facing the central and eastern European (CEE) region in its study "Heading down dead ends". Along with the various EU various funding instruments and other international development banks such as the European Investment Bank, the EBRD is helping to sustain a controversial shift in the region's transport sector. Between 1998 and 2003, the European lenders provided over EUR 10 billion in grants and loans for predominantly unsustainable transport infrastructure schemes. In freight and passenger transport, environmentally sound transport modes such as the railways and urban public transport, are losing out on vital public funds to environmentally negative modes of transport such as highway freight transport, and the creation of car-dependent societies is well advanced.

Such trends demonstrate precisely the way in which the environmentally suicidal transport models implemented across western Europe a generation ago are now being copied in the east. The western models were recklessly bent towards the road sector and individual car development, while public transport was neglected. The results of this - severe summer time air pollution, chronic congestion problems, declining urban centres and accompanying sprawl - have yet to take full root in the east.

Since the EBRD was set up in 1991, 52 percent of its transport investments have gone for road projects. If the EBRD believes, as it claimed in a recent press release, that "motorways are the arteries of a modern economy", then they should provide some evidence for this otherwise we're left with a rather alarming conflation of terms open to the interpretation that a modern economy is one on its last, wheezing legs. Furthermore, while road and air transport continue to enjoy heavy government subsidies, the EBRD is one of the main promoters of the commercialisation and privatisation of public transport. Transport investments account for roughly 14 percent of the EBRD's business and over the last three years annual volumes have almost doubled. Current EBRD investments in the transport sector vary largely and can hardly be described as coherent and objective-driven. For example, in the last four months the EBRD has provided on the one hand EUR 20 million to sustain the leasing business of multinational Daimler Chrysler in Russia and EUR 200 million for motorway construction in Hungary; on the other hand EUR 6.2 million is being disbursed for the public transport sector in Gdansk to allow the purchase of new buses.

The EBRD's new transport policy will clearly have a significant impact on central and eastern European citizens. However, the public consultations surrounding the policy review have been modest at best, imposing certain limitations on the scope of public comments and the way in which they will be incorporated in the new policy. The bank ought to have invited comments from the public on the region's transport needs and objectives for 2004-2008 prior to drafting the new Transport policy, for example at the stage when the review was made of current investments. The current draft has little to say about how EBRD transport projects have performed and how in the future they will contribute to the realising of the EBRD's mission which is, lest it be forgotten, to promote sustainable and environmentally sound development. The fact that the response to the public comments will be published only after the Board's approval of the new policy necessarily prevents in-depth and effective discussion on the questions raised by NGOs. The EBRD's approach to public consultation on this occasion, unlike that taken for the Energy policy review, has thus permitted a single shot in the dark for those interested parties not put off by the prospect of wasting their efforts in this ambiguous way.

Contrary to current practice, the EBRD's operations could and should be instrumental in fostering the development of competitive, environmentally sustainable transport modes. While the CEE countries continue to go through a transition period, this should not entail them being doomed to be, now and in the future, mere transit countries. As things stand, the "transit countries" tag remains a convenient euphemism for powerful lovers of all things tarmac with little concern for adverse environmental and social consequences in far away places.

Ahead of the new transport policy's unveiling, Bankwatch is calling on the EBRD to unequivocally declare investments in public transport, and in the railway sector particularly, to be its priority. Future support for road transport should be focused on projects that address local and regional priorities, do not have negative impacts on valuable, biodiversity sites and do not generate additional traffic. Air transport lending other than for safety measures should become a "no-go zone" for the EBRD until the market conditions for different transport modes are sufficiently harmonised (e.g. aviation fuel is taxed).□

►Bankwatch comments to the EBRD Transport policy:
http://www.bankwatch.org/publications/policy_letters/2004/transportp_comments_12-04.pdf

It's a funny old game

While all eyes were on Sir Alex Ferguson and Arsene Wenger's latest, more tedious than usual spat last month, canny football observers were directing their attention at potentially much more far-reaching rumblings emanating from 1 Exchange Square, London. Would the Governor of the Chukotka Autonomous Okrug be going home in a St John's Ambulance courtesy of the EBRD?

Yes, details were emerging that Russian oligarch and Chelsea football club owner, Roman Abramovich, with a personal fortune of over USD 10 billion, faces the possibility of being sued in a Swiss court by the EBRD over the non-repayment of a USD 17.5 million loan. Seasoned EBRD watchers were startled to witness the bank adopting a Jose Mourinho type stance and loudly declaring, "We have as much money as he does, and we'll see this through." In recent times, faced by shenanigans from high profile clients, the EBRD's posturing has at times been more akin to Mourinho's predecessor, the bluff, permanently embattled Claudio Ranieri. By going after Chelsea's sugar papochka all guns blazing, could Jean Lemierre's team do what no other English club has been able to achieve this season and derail Chelsea's untouchables within touching distance of a seemingly inevitable quadruple of domestic and European glory?

Alas, and with a huge accompanying bellow of relief from an angst-ridden quarter deep in the bowels of the EBRD's Energy department, the answer would appear to be no.

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It's a funny old game

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Not only are Chelsea showing signs of entering their long-awaited 'blip', but the consequences of a legal defeat at the hands of the EBRD, remote or otherwise, should not unduly trouble Chelsea or Abramovich for whom the London club's recent announcement of GBP 80 million operating losses presumably resulted in little more than a distracted yawn.

So all-consuming is Roman Abramovich's ruthlessness that, to catch us all off guard, he has skilfully cultivated the appearance of a bewildered bohemian who can't for the life of him work out how Mourinho's system is proving so effective: "4-3-3 … only ten players on the park? Jose? Genius!" Next to him, Jean Lemierre looks like a rottweiler. Hopefully, the EBRD's newly found teeth will be in evidence as it considers some of the more alarming aspects of the Sakhalin 2 project, for which the Shell-led consortium will be seeking funding later this year.

For now, though, just imagine the scene as, following a guilty verdict in a Swiss court, thousands of Chelsea's peace-loving supporters descend on EBRD HQ to vent their fury. They'll be asking for the Sakhalin whale mourners back!□

Banca Intesa pulls out of BTC

At the beginning of 2004, several Italian non-governmental organizations decided to launch the "MancaIntesa" ("Lack of Agreement") campaign, an advocacy campaign targeting Banca Intesa, the biggest Italian banking group. Other than its size and high profile, the choice of Banca Intesa was linked to its financial participation in some of those projects which have been most challenged by civil society in the last years due to their social and environmental impacts – such projects as the Camisea gas development project in Peru, the OCP (Oleoducto de Crudos Pesados) oil pipeline in Ecuador and the Baku-Tbilisi-Ceyan (BTC) oil pipeline. The latter, spanning 1,700 kilometres through Azerbaijan, Georgia and Turkey to be completed by mid-2005 according to the project sponsors, will be the longest export oil pipeline in the world. Furthermore, Banca Intesa was one of the Italian banks most involved in financing the arms industry.

The bank was soon willing to engage in meaningful dialogue with the promoters of MancaIntesa, primarily because Banca Intesa had been facing already damaging media exposure regarding its involvement with Parmalat and Argentina – to its credit it gave careful consideration to civil society's requests. Just a few weeks after the campaign was launched, Banca Intesa's Chief Executive Officer, Corrado Passera, officially stated that Banca Intesa would withdraw from financing the arms industry and any operation linked to this sector would in future be taken with the direct responsibility of the CEO himself and posted on the bank's website.

The proposals put forward by the Manca Intesa campaign then progressed in two directions. For one, the bank was asked to adopt strict and transparent guidelines regarding the evaluation of the social and environmental impacts associated with its operations. The second aspect involved the bank having to prove concretely that it was ready and willing to effect a positive change towards sustainability in its business practices. Therefore the bank was asked to withdraw from its funding of the controversial BTC pipeline because of the enormous environmental, social and political threats posed by the project in a region of strong instability, armed conflicts and acts of terrorism.

In mid-2004 Banca Intesa decided to attend a meeting in London of BTC financiers hosted by BP, the main project sponsor, to share significant allegations of project implementation failure on the ground advanced by civil society and former project consultants that had been revealed in the mainstream media at the beginning of the summer. In particular, the issue of failures in the pipeline coating in different sections of the project was of top concern to Banca Intesa's management. No clear answer was given by BP's management to these concerns; rather it was reduced to something simply needing a more robust media campaign by project sponsors and other financiers.

Finally, in November 2004, the bank announced that it had sold one part of its share in BTC financing and that it was committed to selling all of its share, amounting to USD 60 million, as soon as possible. According to an internal source at the bank, Banca Intesa was disappointed by the International Finance Corporation (IFC), part of the World Bank Group and one of the key financers of the BTC project, for its deeply flawed due diligence on the project. Banca Intesa had essentially trusted the public funder by basing its own analyses on those of the IFC before agreeing to the loan.

Such a highly significant move should come, one would imagine, as an important and timely signal to the IFC at a time when it is considering the downgrading of its own environmental and social policies because of its lack of capacity to properly implement them. For the 'Equator Principles' banks which have voluntarily 'signed up' to follow the IFC's guidelines and standards in their project finance operations, often based on advice of the IFC as in the case of BTC, the message must have been fairly stark. Certainly on December 14 the Equator banks wrote to the IFC requesting an extension to the IFC Safeguard Review to ensure that some much needed clarity was injected into discussions.

In view of the ongoing failure of environmentally and socially sound project implementation on the ground, as testified to by Banca Intesa's landmark decision, the time has come for other BTC financers to take a clear stand, starting with San Paolo IMI, the other Italian BTC bank. In the meantime Banca Intesa is drafting its own new environmental and social guidelines, to be presented at its next shareholders' assembly in April.

The MancaIntesa campaign has clearly been a great success for Italian civil society and its achievements represent a large step forward in the area of social and environmental responsibility for Italian banks. Campaigners are calling on the bank not to limit itself to simply following the Equator Principles; it should instead develop its own, tailored and more effective path toward sustainable financing. Hopefully other Italian banks, starting with those most involved in projects with high environmental and social impacts, will not be slow to follow the example of the country's largest bank, thus creating a positive level playing field.□

Andrea Baranes, Campagna per la riforma della Banca mondiale

► Read more about this botched, tardy and chilling project at: *http://www.tol.cz/look/TOL/article.tpl?IdLanguage=1&IdPublication=4&NrIssue=101&NrSection=2&NrArticle=13471*

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