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## World Bank - Denouncing or Supporting Oil Terminal in Ramsar Site?

The Bank Group considers the Caspian Sea's oil reserves to be at least as large as those in the North Sea, which currently supply about eight percent of the world's oil needs. In an effort to mitigate the political risks posed by the Caspian oil and gas sector to private investors, the World Bank Group pushed forward a range of institutional, political and legal reforms. The promotion of oil transit, combined with policy reforms and private sector risk mitigation has given rise to a situation in which the Georgian Government is supporting all oil related projects without calculating the cumulative environmental, economic and social impacts.

The Kolkhety Lowland case represents a clear example of how policies

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## K2/R4 Progress, but not the End of the Road

On Thursday, November 29th, Ukraine withdrew from the proposed loan from the EBRD for the completion of the nuclear reactors K2/R4, saying that the EBRD's conditions were "unacceptable".

K2/R4 have been opposed by many various groups since 1996, including NGOs, the Ukrainian public, and recently by the Ukrainian Minister of the Environment. Ukraine's withdrawal from the proposed loan represents a substantial victory for the people of Ukraine and those who have worked for years to stop the inherently unsafe and non-economic project, but unfortunately their work may not be over.

Euroatom has not yet officially withdrawn its loan offer of USD 585 million for the completion of the reactors, which was approved by the European Commission last year. Also, Ukrainian President Kuchma is already lobbying Russia's assistance to finish the reactors, despite the fact that Russia has been unable to complete most of its own unfinished reactors for economic reasons.

Though the withdrawal requested by Ukrainian representatives on the EBRD board is good news, Kuchma's courting of Russia is part of his long term record working in the interest of the nuclear lobby, instead of the Ukrainian people. If he were successful it would increase Ukrainian dependence on Russia.

Bankwatch believes that this should not mean the end of the EBRD's involvement in the Ukrainian energy sector, and that the Bank should direct its actions towards the development of renewable energy and energy efficiency, which has to date been the biggest problem. The EBRD together with World Bank should immediately start to implement their joint Energy Efficiency Plan for Ukraine adopted in 1997, which has so far been ignored by those institutions.

## EBRD and K2/R4 History

In 1995 the G7 countries signed a Memorandum of Understanding with the Ukrainian government seeking the closure of Chernobyl by 2000, with a



mention of possible financing of the K2/R4 units in compensation for the loss of Chernobyl's output. In 1996 Ukrainian and International NGOs met in Kiev on the tenth anniversary of the Chernobyl disaster and started to coordinate their efforts to prevent the K2/R4 project. In September of the same year an independent panel was appointed by the EBRD, the US government and the European commission to undertake economic due diligence (Least-Cost Assessment). In February of the following year the panel released its report, stating plainly that "K2/R4 are not economic" and saying that their comple-

tion would not represent the best use of USD 1 billion, a figure that reached USD 1,48 billion at the time of preliminary Board approval. In March the panel was criticised for their report, and Stone and Webster were commissioned for the same purpose, and would be commissioned twice more during the course of the project appraisal.

In May of 1998 the EBRD held its annual meeting in Kiev. Incredibly several activists were put in jail for several days for simply distributing leaflets criticising K2/R4. The following summer and fall saw a series of pub-

lic meetings held in Ukraine to gauge public opinion of the project. In every meeting held the public expressed their opposition to the project. April 1999 the third report from Stone and Webster is released, and two months later in June, the German parliament passes a resolution requesting that the Government not support the K2/R4 project. In December of 2000 Chernobyl was officially closed, and the Board of Directors of the EBRD granted preliminary approval to the loan for K2/R4, final approval hinging on whether certain set conditions would be met by the Ukrainian government.

## World Bank - Denouncing or Supporting Oil Terminal in Ramsar Site?

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and strategies, defined by international financial institutions, are resulting in a Government agenda that is completely unsustainable. The NGO community raised its concerns to the World Bank Group, pointing out that the Bank is investing millions of dollars to protect sensitive ecosystems while simultaneously investing tens of millions in promotion of oil transit policies and initiatives. They demand that the Bank reverse its practice of promoting oil projects and policies that do not adequately consider the social and environmental implications of unrestricted oil development in the region. Among the problems requiring an immediate response is the construction of Kulevi Marine Oil Terminal in Ramsar Site, nearby Kolkhety National Park.

Since 1998, the IDA and Global Environment Facility (GEF) have been helping the Integrated management coastal zone project meet one of the objectives outlined in CAS for Georgia: protecting the environment and supporting sustainable resource management through conservation of biodiversity at sites of international significance on Georgia's Black Sea Coast, such as the Kolkhety and Kobuleti wetland Ramsar sites. Conservation and restoration of degraded habitats and resources of the Black

Sea Coastal Zone and marine ecosystem through the creation of Kolkhety National Park is also an objective.

However, it seems that establishment of the system of protected areas on Kolkhety Lowland is not compatible with some of the planned or currently undertaken projects. There are



advanced plans towards implementing a growing number of new ports and other controversial projects on the Kolkhety Lowland, either directly in or nearby the Kolkhety National Park and Ramsar site territories.

The construction of a new terminal in Kulevi in the middle of the Ramsar site started with severe violations of Georgian and international laws, failing to prove the urgent national need for it and with "prior assurance from

the authorities to World Bank staff that construction would not go forward". The prior assessment of construction by the Bank was that "Construction of a new oil terminal in, or adjacent to the Kolkhety National area and a new railway line to serve it would appear to threaten the Kolkhety wetlands". The Bank was concerned about the "potential impact on World Bank financed projects in Georgia and on Georgia's international obligations under the Ramsar Convention".

A high level mission was set up by the World Bank to "review the facts" and "assess the situation on the ground". Despite the fact that the mission report was "forthcoming", the Georgian Government does not hesitate to call the Kulevi Oil Terminal Construction Project the project of Millennium, even when "economic justification for this particular project remains unclear."

The decision-making process in Georgia is being conducted in the usual way: recently, Presidential Decree No.279 (13 July 2001) agreed to hand over five hectares of non-agricultural land in the village Kulevi (on the Ramsar site territory, nearby a new oil terminal) to the Georgian Fishery Company "Argo", to construct a fish processing factory and harbors. However, some Georgian NGOs and experts have suspicions that the actual purpose of the decree is to facilitate the construction of another additional port, probably for dry cargo.

## **Bound and Gagged: Lack of EIB/EBRD Accountability**

Imagine: you live in an environmentally protected area, let's say in Azerbaijan and a US based company starts oil extraction near your house. You have serious concerns about its impact. From the statement of the company you learn that the financing of the project by the EBRD should guarantee the highest environmental standards.

When you ask for some documents, e.g. the nature of the standards or how they will be followed, you are either refused or they are provided to you in a language that you cannot understand. With your bad experiences with national authorities that are intertwined with oil companies, you would think that the EBRD, an institution that is supposed to promote democracy, would try to ensure that the rights of Azerbaijani citizens are upheld. However, you soon find that you might as well put your complaint into a bottle and throw it into the Caspian Sea - the end result would be the same as seeking justice from the EBRD. This paragraph is not a hypothetical scenario - you have been reading about the Frontera Resources project.

Two institutions that are effectively controlled by EU governments, the EBRD as well as EIB, have a substantial lack of democratic mechanisms for the protection of affected communities and citizens. Such mechanisms would allow the citizens to raise their concerns in cases when

they are negatively affected by projects financed by those publicly owned Banks. It is also important that the concerned citizens can raise issues and objections if the project is found to be in violation of the Banks' policies and procedures, laws or international conventions.

When CEE Bankwatch Network demanded the preparation of such a mechanism, it was not unprecedented - the World Bank have had an Inspection Panel since 1993 as part of an effort to increase public accountability in its lending. The inspection panel was the result of a large international campaign against the Sardar Sarovar dam on the Narmada river in India, a project that had devastating human and environmental impacts and violated a number of internal World Bank policies and procedures.

Since that, mechanisms with similar functions have been created in other International Financial Institutions: the Compliance Advisor/Ombudsman for the IFC and MIGA, the Investigation Mechanism at the Inter-American Development Bank, and the Inspection Committee at the Asian Development Bank.

The reason the EBRD and EIB did not create similar mechanisms probably stems from their fear of public accountability, as there is evidence of their ignoring internal policies and procedures. This ranges from the miss-categorization of projects for the environmental assessments, to not releasing the appropriate documents or limiting access to them, to ignoring the requirements of international conventions.

Bankwatch has collected evidence of such problems in its publication "The EBRD: a Decade of misinformation and secrecy". A number of problematic projects that were in the EBRD pipeline in 2000 clearly show that issues of procedure violation need a systematic approach.

This issue was also reflected by the Parliamentary Assembly of the Council of Europe. In its June resolution, the Assembly encourages the Bank to "consider the establishment of a body to hear appeals and grievances from the public."

The CEE Bankwatch Network therefore demands the establishment of a Compliance and Appeal Mechanism in the EBRD and EIB, which will be able to conduct investigations without interference or influence from Bank staff and management. Such a mechanism should allow any of the affected people to raise their concerns, and should protect them from potential oppression from the authorities or the project sponsor.

The mechanism should be able to conduct investigations independently of the Banks' staff, and be allowed access to bank documents and Bank staff. The report of the investigation should be publicly available and include the solutions as well as staff response to the report and the following actions.

Such a compliance and appeal mechanism would not only serve the citizens and communities, but it could also help the Banks enforce their own policies and procedures, and improve the quality of the projects that they finance.

## **Sponsors Violate Environmental Procedures in Czech Republic**

The Mexican company NEMAK, a producer of aluminum engine heads, is trying to build a new facility, with an annual capacity of 1 600 000 heads, in the middle of fertile agricultural land near the town of Havran (Most District, Czech Republic). Its production will supposedly supply the Volkswagen/Skoda company in the Czech Republic and Opel in Hungary. This project has passed the Concept Clearance stage of the EBRD. The CEE Bankwatch Network's local branch (Hnutí DUHA) and Environmental

Law Service are raising concerns about the number of illegalities connected to environmental and land use proceedings in the preparatory phase.

Despite the fact that the project is still being kept at the early stage of due diligence consideration within the EBRD, it is also necessary to keep the Bank aware of the fact that the project sponsor has not fulfilled the basic Environmental Procedures requirements regarding public involvement since the very beginning and that EIA documentation does not satisfactorily cover all the aspects of the project.

The main problems include project location, violation of the EBRD Environmental Procedures, deficiencies in the EIA process, and violation of law in the case of Land Use Permit proceedings. The facility is to be located on the only useable agricultural land in the Most District, in spite of the fact that there are enormous areas of devastated land that can hardly be used for anything other than industrial production.

The affected public were not duly involved in the complex decision-making process; and investors have not arranged a meeting (so called scoping) where concerned groups, including those involved in the EIA of the previously considered site, could express their opinion on the content and scope of the EIA documentation.

There are a number of specific procedural and factual discrepancies of the EIA (including improper disclosure of documentation to the public, improper announcement of the public hearing, failure to assess alternatives in capacity and locality, lack of assessment of health risks to

facility staff and the population, as well as the impact on the landscape and soil).

Finally, there is a clear and direct conflict of the project with the land use plan of the site (according to the plan the affected plots should be used for farming production, not industrial construction), while suitable alternative locations have not been considered. There is also a clear conflict of interests due to the fact that NEMAK Europe as an investor has hired the City of Most municipality to arrange the land use permit at the Building Authority, which is subordinate to the city and therefore can hardly proceed independently.

The NGOs' position towards the project is that the EBRD should proceed with the project only if there is a completely new EIA, satisfactorily conducted, as well as a new Land Use proceeding, due to the illegality of the current one. If these concerns go unanswered, NGOs will demand that the EBRD not proceed with the project.

## Who is Paying for Mistakes?

ISPA fund has been available for Latvia since the beginning of 2000. Combination of EC procedures, bad performance of consultancy companies selected by EC and limited experience of Latvian authorities in dealing with environmental and transport projects, proved to be serious obstacle for timely and successful implementation of the projects.

In 2000, the European Commission, according to its tendering procedures, selected Carl Bro consortium for preparation of all projects' framework, i.e. all environmental ISPA projects in candidate countries that amounted for less than EUR 300 000. Tebodin, Dutch consultancy company, was one of the six companies belonging to CarlBro consortium that got contracted for preparation of environmental ISPA project documentation.

Tebodin was contracted for two ISPA projects in water sector. The company had to prepare all documentation needed for implementation of these two projects. However, two municipalities where projects will be implemented - Ventspils and Jelgava

towns - were unsatisfied with the quality of work done by Tebodin. Similar case occurred in Ventspils in the beginning of 2001, when municipality had planned to announce tender for building of main component of ISPA project, i.e., station where water has to be freed from iron. However, documentation that laid down tendering provisions was in bad quality and did not reflect EC requirements. As a result, tenders were not announced.

Tebodin representatives in Latvia acknowledged that there have been some delays in preparation of project documentation, but they aroused mainly due to lack of experience with ISPA projects in general. According to contract between Ministry of Finance and Tebodin, deadline for completion of work was May 31. In mid-May, Tebodin tried to argue that work would be done in time.

Nevertheless, in June 2001, the contract between Tebodin and Latvian Ministry of Finance was broken with reference to written complain of municipalities and Ministry of Environment. In order to complete project documentation, new national tender in Latvia was announced where Latvian based consultancy company Eiroprojekts was selected. Money in

an amount of more than EUR 350 000 was assigned from Latvian Environmental Protection Fund and was used for rewriting documents and preparing new ones.

In general, the idea was good – less bureaucracy and quicker implementation of ISPA projects. Soon after problems were realised in Latvia, European Commission changed its procedures a bit. Starting from April 2001, five companies (instead of one consortium as earlier) had right to prepare ISPA projects in the sector of environment and framework was decreased to amount of less than EUR 200 000 for each project.

Heavy discussions between Ministry of Finance and Tebodin are still going on. It was stated unofficially that Ministry of Finance would charge Tebodin for some 15% from the contract amount, which was USD 299 700. As a result of Tebodin bad performance, implementation of two environmental ISPA projects was delayed for one year. In addition, taxpayers have to give several hundred thousands Euros to complete the job. This money could have been spent for other needed environmental projects, including those supported by ISPA.

## EIA-Burden in Terms of Money and Time

The Forest Development Project in Romania is supposed to “increase the contribution to the national economy from the sustainable management of Romanian forest resources.” The main aims of the project are institutional strengthening and capacity building. With the current institutional problems in the forestry sector, coupled with a new wave of restitution, Romania needs these reforms. However, some 70 percent of the project cost will cover rehabilitation and construction of new forest roads.

The question is what is the real aim of the project: to help Romanian forestry sector in dealing with institutional problems and illegal logging, or simply better access to one of Europe’s last virgin forests? According to the Project Information Document and Environmental Assessment, the road component and restitution might have the highest negative impact. Previous experience has shown that inadequate restitution reform may result in immediate harvesting and environmental damage. In spite of that, “the EIA does not take into account the potential impacts of FDP on the restitution process”.

Although the EA identified road constructions as a high potential risk, only nine, out of 91 roads were chosen as a subject to EIA. The study itself recommended EAs for all roads, including a cumulative effect, but it also stated that “EIAs are a burden in terms of money and time”. Therefore,

“EAs for forest roads should be very focused, streamlined and reduced in scope... the EAs need not present the information on legal and regulatory framework or alternative analysis”. However, an EA without alternatives or no-building scenario is not a proper EA. If the Bank decides to implement such a limited and “streamlined” EA, it would violate its own procedures.

Additionally, the public has not been properly involved in the process. There was only one NGO representative at three out of 11 public consultation meetings. Not only NGOs, but all the other interested parties, should have the right to be a part of the decision-making process, including the local population who will feel the consequences of project.



## Energoatom Accused for Misuse of Profit

Misuse of profit and lack of transparency in financial reporting of the Ukrainian state owned nuclear company Energoatom were the main topics on the October 10th session of Ukrainian National Commission on Power Regulation. The issue of Energoatom’s compliance with the Law “On Power Industry” and Conditions and Rules for Power Generating Activities was discussed as well.



In particular, Energoatom is accused for not providing the Commission with information on its financial activity as required by mentioned legal acts. In addition, Commission requested an explanation on use of UAH 789 million (USD 150 million) from the company's profit during the first five months of 2001. The sum, 81% of the profit, was reported as “other expenditures” without any explanation. According to the Commission's calculations “other expenditures” reached UAH 0.93 billion (about USD 173 million) by Energoatom during the first seven months.

The Commission sent numerous letters to Energoatom, demanding the information. However, one of the company’s responses contained “confidential” information, so Commission could not use them in its regulatory work.

Such unacceptable situation lead to the Resolution, issued by the Com-

mission, which obliged Energoatom to solve the problem of “other expenditures” till mid-November. However, it is not clearly stated in the Resolution that Energoatom might lose the license if it is not following the demand.

It seems like Energoatom becomes more and more insolvent. Its debts to the state budget are being restructured and the company is still operating four nuclear plants with 13 reactors without a permanent license. Every year, Energoatom applies for temporary license failing to comply with full set of safety requirements. Seeking for money to complete K2/R4, the company enjoys state guarantees for loan; moreover, it ignores requirements of the state regulative body.

Is there a link between state privileges to the nuclear company, undisclosed use of profit and Parliamentary election campaign in Ukraine? Who knows? Who cares?

## New Bankwatch Publications:

<http://www.bankwatch.org/downloads/imf-thornypath.pdf>

### K2R4 nuclear project in Ukraine: Guaranteeing Higher Nuclear Risk?

This issue paper briefly describes major problems related to the completion of K2R4 nuclear reactors in Ukraine, starting from financial and safety issues to environmental concerns and public participation.

[http://www.bankwatch.org/publications/issue\\_papers/2001/ip-k2r4-ecas-1101.pdf](http://www.bankwatch.org/publications/issue_papers/2001/ip-k2r4-ecas-1101.pdf)

### A Thorny Path Towards IMF Documents: A Struggle for the Secret Documents of the IMF in Slovakia.

The goodwill of public servants and public reliance on access to IMF documents completely failed in Slovakia. This issue paper illustrates the necessity for having a clear, legally obligatory and easily enforceable policy for the disclosure of information - a policy that will be binding on both the IMF officials and Slovakia's public servants.

## Coming Soon:

### Study on PRGF in Georgia

Green Alternative in Georgia is going to release a study on the PRGF document done by the Georgian Government under the World Bank and the IMF PRSP initiative. The study reviews and analyses the roots of the poverty in Georgia, deficiencies of the PRGF Programme that has continued the establishment of the World Bank and IMF recommended package of socio-economic activities, which was one of the core causes of poverty, inequity and corruption growth in Georgia. The study detail reviews and recommends necessary steps that should be taken in the energy, agricultural and environmental sector. It points out the Institutions habit of relying on privatisation as a cure-all, when it often completely ignores the needs of the poor and limits the access of vulnerable groups to main public services such as education and health, and natural resources.



*Merry Christmas  
and Happy  
New Year!*

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