

The CEE Bankwatch Networks Mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation

KRONOSPAN SLOVAKIA MDF FACILITY: CASE OF INSUFFICIENT INFORMING OF PUBLIC AND ENVIRONMENTAL PROBLEMS MITIGATION

The Project

Kronospan, the biggest wood-based panel producer in Europe, is expanding its activities in Central and Eastern Europe¹. The project at stake is a greenfield Medium Density Fibreboard (MDF) production plant² with a capacity of 250,000 m³ or 350,000 m³ of MDF per annum³. The project will cost approximately €70-87 million⁴, of which €40 million should come from a syndicated loan (up to €24.5 million coming from EBRD resources and the remaining €15.5 million to be financed in parallel by local banks). The Kronospan Central European Group⁵ originally planned this project in the town of Jihlava in the Czech Republic. However, at the last moment the company decided to move the project from the Czech Republic to the Slovak Republic.

Environmental problems

According to the information released in the local news⁶, the production plant should emit 16kg of formaldehyde (extremely harmful substance) per hour, which equals 130 tons of emitted formaldehyde per year. The affected citizens were informed later – unofficially⁷ – that the levels of formaldehyde emissions would be 2.08 kg per hour, i.e., 18 tons per year. The plant will also emit sulphur dioxide, nitrogen dioxide and solid waste. The affected citizens in Slovakia were never given exact figures for future emissions, just some estimates concerning similar plants in foreign countries.

Apart from air emissions, another serious problem will be caused by the high levels of noise. Even before the expansion of production capacity, the night-time noise levels are currently exceeding the maximum allowable level of 40 dB by 10-15 dB⁸. The company's production facilities are located very close to the three housing estates in the city of Prešov⁹ and the nearby village of Lubotice; i.e., some houses are only 300-500 metres from the production facilities. The project is located virtually in the middle of the town.

The EBRD

The EBRD released the Project Summary Document on the 26th of June between the projects planned in the Czech Republic. According to the EBRD, 'The Sponsor informed the Bank in late October that a decision had been taken to build the new plant in Slovakia. Even though [*sic*] the project is materially the same (i.e. a green-field MDF plant), environmental due diligence was performed and a report on the Slovak site was received on **12 December**'¹⁰. The project was approved by the Bank's Board of Directors on **16 December**, i.e., only four days after the Bank had received the EIA.

Bankwatch asked the EBRD when exactly the Project Summary Document (PSD) had been released in the Bank's project pipeline for Slovakia. The EBRD responded, 'We were unable to find the exact date of the PSD change that you requested; our IT system does not log each change--and the PSD records only the original date of PSD release and most recent update. As we have previously stated, in this particular project, we **do not believe that the country change was provided for the full 30 days prior to Board; our best estimate is that it was on the**

¹ Kronospan is taking advantage of many incentives – such as cheap labour costs, low tax rates, tax benefits – to expand its business in Slovakia.

² MDF is used primarily for furniture fronts and tabletops but also for mouldings and cornices.

³ The EBRD website - <http://www.ebrd.org/projects/psd/psd2003/32251.htm> - gives a total production capacity of 250,000 m³. However, the publicly presented investment intent (available at <http://www.kronospan.sk/ekologia/mdf/mdf2.pdf>) states an even greater production capacity – 350,000m³.

⁴ €70 million, according to the EBRD website (*op.cit.*). The Slovak media (see, e.g., http://www.Presov.sk/clanok.php?clanok_id=1245) places the total investment costs even higher – €87 million.

⁵ Kronospan comprises five separate groups and has ten panel-mill sites in eight countries. It is registered in Cyprus.

⁶ http://www.pis.sk/clanok.php?clanok_id=1158

⁷ This version of the investment intent was sent to the local authorities without officially informing the citizens organization representing the affected public.

⁸ Measurements made in the village of Lubotice. Source of information: http://www.kronospan.sk/ekologia/hluk/hluk_obr1_9.pdf.

⁹ The Sekcov, Šalgovik and Solivar housing estates, where more than 30,000 people live, in Prešov (third biggest city in Slovakia with approximately 100,000 inhabitants).

¹⁰ François Lecavalier, Senior Banker & Portfolio Manager, Central Europe, EBRD; email to author, 12 January 2004. Emphasis added by the author.

website for 14 days prior to Board'¹¹. This response confirmed that the PSD was **released later than required by the EBRD's information policy.**

The investor

At the public hearing related to the EIA process (4th April 2003), the representative of Kronospan promised that the whole investment intent would be released on the company's website within three days. By the end of April 2003, however, Kronospan had released only part of the investment intent, without emission and imission studies¹².

Although there are air monitoring systems in Kronospan's production facilities in many other countries – Poland, for example – the investor in this case is not considering such an alternative for a timely and independent way of informing the affected people about the state of the air they breathe. Also, in countries such as Switzerland, Kronospan uses 'the strictest yardsticks to monitor formaldehyde emissions'¹³, which does not seem to be the case in the Slovak Republic.

Slovak authorities

Despite the problems, the Slovak Ministry of Environment decided to accede to Kronospan's request to expedite the permit procedure (so-called fast track). This meant a serious threat to the affected local community in their efforts to discover the truth about the environmental impact of the planned production facility.

The Ministry of Environment released the final position on the project's EIA on 23rd June 2003¹⁴. It recommended a project in its 'dry way of production alternative' with the provision that the 38 conditions for the preparation, realisation and operation of the project, listed in the position paper, are fulfilled.

A local NGO asked for a new process for issuing the construction permit, which was accepted by the local authority that issues construction permits¹⁵. The new process started with a public hearing held on 28th January 2004. A local NGO presented its requests and proposals in writing¹⁶, but Kronospan have not yet responded.

Opinion of affected citizens

On the 2nd May 2003 the citizen's organisation representing affected local citizens – OZ Zdravá obec – was formally registered. The affected citizens in Slovakia were never given exact figures of future emissions and noise levels, just some estimates coming out from similar plants in foreign countries. As mentioned above in regard to formaldehyde emissions, the figures vary.

Some of the activities of a local NGO are described above. Recently, the local NGO started two new petitions amongst the affected local citizens – one for the authorities in Prešov and one for the authorities in Lubotice. The local citizens are requesting an air quality monitoring system (monitoring stations), noise mitigation measures, and air emission mitigation measures.

Conclusions

This case is one of the many examples in which investors in environmentally negative industries coming to Central and Eastern Europe do not take the rights, concerns and comments of the affected citizens seriously. More sadly, even the EBRD was willing to circumvent its own information policy in order to support fast-track approval of the project.

Both Kronospan and the EBRD must make every effort to change their approach to the rights of the local citizens to timely and complete information and to the mitigation of the project's negative environmental impacts. The installation of air monitoring stations and the implementation of 'best practices' in environmental impact mitigation must be assured.

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¹¹ Doina Caloianu, Manager of Outreach and NGO Relations, EBRD; email to the author, 29 March 2004. Emphasis added by the author.

¹² Source of information: <http://www.zdravaobec.ahoj.sk/> (website of local NGO Zdrava obec).

¹³ Kronospan products bear the label 'LIGNUM CH 6.5' in Switzerland.

¹⁴ *Final position paper (370/03-4.3), issued by the Ministry of Environment in accordance with Act 127/1994 Z.z. on Environmental Impact Assessments.*

¹⁵ New construction permit process – number SÚ SP 2203/2003-Se.

¹⁶ Available at <http://www.zdravaobec.ahoj.sk/doc/podaniestavebnekonanie.htm>