

Why the EBRD should not finance the Southern Gas Corridor

For more information

Fidanka Bacheva-McGrath
EBRD policy officer
fidankab@bankwatch.org

Anna Roggenbuck
EIB policy officer
annar@bankwatch.org

We would like to share our concerns regarding the Southern Gas Corridor, a project designed to bring gas from Azerbaijan to Italy through a series of pipelines stretching over 3,500 kilometres, crossing seven countries and involving more than a dozen major energy companies. The pipeline will import 16 billion cubic metres of gas each year (bcma) into Europe. Costs so far are estimated at USD 45 billion.

The realisation of a project of this size largely depends on public financial support. Therefore several major banks have been asked to help finance the Southern Gas Corridor's different sections. In December 2016 three public banks approved loans: the Asian Development Bank (USD 1 billion for the Shah Deniz gas expansion project), the World Bank (USD 800 million for the Trans Anatolian Pipeline (TANAP), the Turkish leg of the pipeline) and the Asian Infrastructure Investment Bank (USD 600 million for TANAP). All three banks chose to ignore the severe and well-documented human rights abuses in Azerbaijan and Turkey. While the EBRD is currently considering loans for the Trans Adriatic Pipeline (TAP) and TANAP, the bank should not follow that path of its sister institutions and instead assess the reputational and financial risks of involvement in the Southern Gas Corridor.

Azerbaijan and its membership in the EITI

Freedom of speech and basic civil rights have been under threat in Azerbaijan for several years now. Given the severity of the crackdown against civil society, Azerbaijan was suspended from the Extractive Industries Transparency Initiative (EITI) and subsequently left the initiative in March 2017. The decision to suspend Azerbaijan was a result of the lack of compliance with the EITI's transparency and accountability principles.

As the EBRD is a longstanding supporter and promoter of EITI, Azerbaijan's suspended membership should be another indication that the project is not being developed in line with the standards the bank professes to adhere to and thus refrain from financing it.

CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

Turkey and the Trans Anatolian Pipeline

The referendum in Turkey on 16 April won a narrow victory and will result in significantly expanding the control of the president to be elected in 2019 by granting them new powers to dissolve parliament, issue executive decrees, impose states of emergency, and appoint vice-presidents, ministers, high-level officials, and senior judges. Although President Recep Tayyip Erdogan called the poll ‘the most democratic elections, not seen anywhere in the West’, the Organization for Security and Cooperation in Europe (OSCE) said that: ‘the referendum did not live up to Council of Europe standards. The legal framework was inadequate for the holding of a genuinely democratic process’ as a ‘lack of equal opportunities, one-sided media coverage, and limitations on fundamental freedoms’ had created an ‘unlevel playing field’ in Turkey’s vote.

This follows the deterioration of the rule of law and protections for civil society, freedom of speech and independence of the media especially after the attempted coup in July 2016. Turkey remains under continued martial law, and the arbitrary arrests of journalists, academics and human rights activists are frequent. In November 2016 the Council of the EU expressed its grave concern over those developments.¹ Under these circumstances, it has been impossible for civil society to engage in genuine public participation around this 1800 kilometre pipeline. Proper due diligence on TANAP is therefore impossible for the EBRD at this stage. As far as we are aware, TANAP project documents do not include any analysis of the impact of Turkey’s imposition of martial law and do not reflect the current and rapidly evolving conditions in Turkey.

The problematic situation in TAP transit countries

The Trans Adriatic Pipeline will pass through **Greece**, **Albania** and reach Italy after crossing the Adriatic Sea. In all three countries the construction has been met with resistance. In **Greece**’s Kavala municipality, the land of individual farmers and public property of the

municipality of Doxato was destroyed by bulldozers of TAP subcontractors without the affected people and local institutions being informed or consulted beforehand.

In **Albania** TAP will impact approximately 80 communities whose livelihoods are based to a large extent on agriculture. While people depend on the land, the TAP consortium has not properly consulted them. Affected households were told that they have to give up their land for the pipeline construction and that they will be compensated, albeit without mentioning that they have the right to negotiate the amount or disagree. In addition, people who are opposed to giving away their land have been threatened with expropriation. So far eight complaints regarding resettlement issues have reached the European Investment Bank’s Complaints Mechanism.

In **Italy** the protests against TAP stretch across the Lecce region where various public authorities, including local mayors, oppose the pipeline. Indeed, several environmental conditions for starting the construction works have not been fulfilled, despite the fact that they are conditions for the project’s environmental permit becoming valid. Additionally, there are several appeals pending in administrative courts. In April 2017, the court accepted a request by the regional government of Apulia to suspend permits allowing the removal of olive trees. Various parties filed a request for a formal investigation into TAP, and they now await a decision by a judge on a preliminary investigation in Lecce. As in the case of Albania and Greece, local citizens also filed a complaint to the EIB Complaints Mechanism. For the time being, the strong resistance of local administrations and inhabitants has stalled the project.

Dubious economic viability

Gas demand in Europe has been declining in recent years. This questions the need for building additional gas infrastructure, a finding that has been underlined by the study “Energy Union Choices: A Perspective on Infrastructure and Energy Security in the Transition” published in July 2016. The study’s first finding underlines this: “*Europe’s current gas infrastructure is largely resilient to a wide range of demand futures*

¹ http://www.consilium.europa.eu/press-releases-pdf/2016/11/47244649919_en.pdf

and extreme supply disruption cases, with the exception of some countries mostly in South Eastern Europe under specific circumstances. Under normal market conditions, Europe does not need any new import capacities into Europe or cross-border gas infrastructure between Member States to secure supplies.”² Investing billions of euros into a pipeline that might not be necessary and therefore not be used to full capacity is not the best use of public money.

Energy diversification and Russian gas

One important argument for promoting the Southern Gas Corridor has always been that it helps diversify Europe’s gas supply away from Russia. However this argument is questionable. A study from the Oxford Institute for Energy Studies from July 2016 found that the gas reserves of Azerbaijan are not sufficient to feed the pipeline for its lifetime and more gas will have to be imported from other countries.³

Ironically, one of these countries likely to make up this shortfall would be Russia: Turkey and Greece have both signed bilateral agreements that allow Gazprom gas to be transported through the Southern Gas Corridor. In addition, a deal signed in October 2016 between Turkey and Russia on the Turkish Stream shows that one section of Turkish Stream will be in a position to connect to the planned junction at Ipsala-Kipoi of TANAP and TAP. Moreover, in March ENI and Gazprom signed a memorandum of understanding expressing the parties’ interest in analysing the prospects for cooperation in developing a southern corridor for gas supplies from Russia to European countries. Ultimately this would mean that the Southern Gas Corridor might be built with strong public support to diversify gas supply away from Russian gas, only to allow Russian gas into the pipeline once it is built.

² http://www.energyunionchoices.eu/wp-content/uploads/2016/07/EUC_Report_Web.pdf, p.11

³ “Azerbaijan’s gas supply squeeze and the consequences for the Southern Corridor”, The Oxford Institute for Energy Studies, July 2016

New gas pipelines are not in line with Paris Agreement

Gas is portrayed as the cleanest of fossil fuels and thus a transition fuel. However, revised estimates of the global warming potential of methane, methane leaks along pipelines and the risk of fossil fuel lock-in for decades to come contradict the Paris Agreement. As a promoter of climate change mitigation, the EBRD should therefore refrain from investing in the Southern Gas Corridor.

The Southern Gas Corridor raises a number of issues about human rights violations, support for authoritarian regimes, the diversification of gas supplies, the economic viability of the project and as well the question of whether after the Paris Agreement new fossil fuel projects should be supported at all by public institutions. For these reasons we believe the EBRD should not support the project.



This briefing was produced with the financial support of the European Union. The content of the document is the sole responsibility of the undersigning organisations and does not reflect the position of the European Union