Thermal and coking coal in EBRD's draft Mining Strategy

In the run-up to the historic Paris Accord in 2015, the EBRD launched the Green Economy Transition approach, aimed at putting investments that bring environmental benefits at the heart of the bank's activities and thus boosting the transition to low carbon economies. CO_2 emission reductions need to be achieved in all sectors that the bank supports and in all countries of operation, if this approach is to be a meaningful one.

While the entire mining sector has significant CO_2 emissions, the most notable ones are generated in coal mining, which the EBRD's draft mining strategy now demonstrates it will continue supporting. The draft document outlines circumstances in which the EBRD would consider lending to thermal and coking coal mining:

- Financing of coking coal projects;
- Exceptionally, HSE&E improvement projects at thermal coal mining operations;
- Health and safety, & operational safety improvements, or mine remediation in coal mining operations.

There are no criteria or methodology for deciding on what kind of projects fit into these categories, and the indicators for progress are only measuring volumes of investment. Bankwatch's experience in monitoring EBRD supported mining projects shows that this allows vertically integrated energy companies to benefit from EBRD's support for coal mining, eg. the 2011 EPS Kolubara Environmental Improvement project (see below). The EBRD's project-level transition indicators still do not include any environmental and social components, so social, environmental and/or climate benefits from projects are seen as an added bonus, not a part of the EBRD's core indicators.

Coal mining and its use should not be treated separately, as is still the case in the bank's mining and energy strategies. The EBRD should not be able to dodge its responsibility for the CO_2 emissions simply by separating mining from combustion, as coal is generally mined in order to burn it. Such an approach has, for example, made it possible for the bank to support Serbia's state-owned electricity company Elektroprivreda Srbije no less than five times since 2001, without being able to steer the company away from its over-reliance on lignite, which still makes up around 70 percent of annual power generation. Worryingly, several other cases of coal mining projects stand as evidence that the bank directly supported purchasing of new mining equipment which enables lignite extraction and prolongation of the life of the mines, or extension of coal power plants capacity, while failing to address social impacts.

These examples are detailed below and serve as showcases that coal mining, sustainability and transition to a low-carbon economy cannot go hand-in-hand. The EBRD needs to make up its mind on which side it will stand.

Elektroprivreda Srbije (EPS) - Kolubara case-study [Serbia]

In October 2015, the independent Project Complaint Mechanism (PCM) of the European Bank for Reconstruction and Development found that the bank breached its own environmental and social policy when approving a EUR 80 million for mining operations of the Serbian state energy company EPS. The

PCM investigated a 2011 loan to EPS to buy new mining equipment for the highly controversial Kolubara lignite mine.

As the PCM report shows, the EBRD failed to adequately assess the extent of greenhouse gas (GHG) emissions from the project. The bank admitted in a document presented to its Board of Directors before project approval that the new mining equipment would enable the production of lignite with more uniform quality, which was a precondition for a new power plant at the site. However, it omitted the GHG emissions from the new plant in its calculations and as a result presented the project as leading to *reductions* of emissions instead of increases. As the compliance report puts it: *"The GHG assessment undertaken on the 'Project' is piecemeal, unsubstantiated in terms of supporting information […] and inconsistent with EBRD guidance and international good practice."*

The PCM report came in response to two complaints centred around the EBRD's pre-project environmental and social assessment, which evaluated the impacts of only selected parts of the Kolubara mine basin. The assessment also downplayed the negative aspects of the project, such as supporting mine expansion and creating the preconditions for the construction of a new coal power plant. Most notably, by excluding the village of Vreoci from its assessment, the bank attempted to avoid responsibility for the collective resettlement of 1180 households from Vreoci.

In addition to this, just as the PCM report was made public, the EBRD approved a EUR 200 million corporate restructuring loan to EPS, the bank's fifth since 2001. The loan has among its conditions that a resettlement framework is to be developed, followed by specific resettlement action plans to be agreed on with affected communities. However, although the EBRD has been notified by EPS that the resettlement framework has been published, the document was nowhere to be found, and it had not been consulted with the communities or Serbian civil society organisations that follow the case almost two years later. Two problem-solving initiatives have been pursued in 2017 alone.

EBRD's draft mining strategy recognises that in Serbia "Many state-owned coal mines are in poor EHS&S condition". However, it also states that "the country is currently the most mining-friendly of the Balkan states, thanks to a supportive mining code. As a result, a quiet mining investment boom is underway. There consequently also little opportunity to peg new ground for exploration in the country. Mining is only source of employment opportunities in many regional cities. Thus, training and education for employment is an increasing focus."

The mining friendliness of Serbia derives in reality from a series of loopholes in the mining law and company practices we have documented: no guaranteed protected areas for mining perimeters for at least 2.5 km from communities, exclusion of local communities from permitting processes, ease of public interest declaration, ease of getting permits for exploration, mining companies being relieved of responsibility for historical pollution etc.

Maritsa East lignite mines - case study [Bulgaria]

In 2015 the EBRD provided a grant to Maritsa East Mines company for purchasing of an excavator, as part of the Kozloduj Decommissioning Fund (KIDSF). Information about the grant was available in Bulgarian media as early as 2014 and Bankwatch member group Za Zemiata has enquired about it with the then Ministry of Economics and Energy. The latest enquiry with the Bank's PCM from September 2017 suggested that the KIDSF grant is still being disbursed thus the project is active and the EBRD has financial interest in it.

In addition, the 2016 EBRD's Bond Issue project for Bulgarian state-owned energy utility (BEH), whose aim is to support the implementation of key power sector reforms and enable BEH to restructure debt on its balance sheet, improving the long term financial sustainability of the power sector in Bulgaria, carries certain requirements towards BEH and its major subsidiaries, such as Maritsa East Mines Company: http://www.ebrd.com/work-with-us/projects/psd/beh-bond-issue.html

There is no project summary document for the grant project part of the KIDSF, only a procurement notice about the design, manufacture, supply, construction and commissioning of bucket-wheel excavators of the SRs 2000 type and the SRs-200 type at Mini Maritza Iztok EAD, Bulgaria. They provide additional information about the replacement of three SRS 1200 dumpers with one new SRS 2000 rotary excavator at Troyanovo-North Pumping of a new SRs 200 excavator for the secondary excavation of 50 million m^3 of the internal embankments on the southern border of "Troyanovo-North" mine.

Purchasing of new mining equipment directly enables lignite extraction and lifetime extension of the mine. Additionally, it is a subsidy, in the form of a grant, not even a loan, which distorts further the market non-competitiveness of coal.

Enabling mining equipment purchase and thus signalling the expansion of the mine, has had a snowball effect on the communities living in the villages neighbouring the mine. After 2005 the village of Beli Bryag was abandoned by the municipal administration and is in a severe state because of the impending resettlement. The only interested buyer in the locals' properties is Maritsa East Mining company, which evaluates the price of the property and offers a price that can not cover the purchase or construction of a new home and a yard similar to the ones currently owned. The company uses the term "market price estimation" and prefers not to use the term compensation. There is no clear Resettlement Action Plan, no Land Acquisition Framework or a clear method for compensation that would be fair and equitable to the villagers. The case is subject to a problem solving initiative with EBRD's PCM.

Conclusions

In order to stay below the 2 degree Celsius threshold, global emissions need to peak and then fall by between 40 and 70 per cent by 2050, according to the fifth IPCC assessment report. Additionally, to get on a two degrees path global carbon emissions from coal alone need to be cut by two-thirds of 2015's levels by 2040.

According to a 2016 Oxford University study, this means no more fossil fuel electricity generation facilities can be built at all after 2017[1]. These findings are supplemented by an Oil Change International study that finds that not only can no new fossil fuel power stations be built, but also no new fossil fuel infrastructure as well. This is because the potential carbon emissions from the oil, gas, and coal in the world's currently operating fields and mines would already take us beyond 2 degrees Celsius of warming, and even excluding coal, the reserves in currently operating oil and gas fields would take us beyond 1.5 degrees Celsius. This means that some fields will need to be closed before they are depleted.[2]

[1] Alexander Pfeiffer, Richard Millar, Cameron Hepburn, Eric Beinhocker: The '2°C capital stock' for electricity generation: Committed cumulative carbon emissions from the electricity generation sector and the transition to a green economy, Received 11 September 2015, Revised 16 February 2016, Accepted 18 February 2016, Available online 24 March 2016, http://www.oxfordmartin.ox.ac.uk/publications/view/2119

While the proposed strategy *aims to take account of climate change and encourage governments to take a long term strategic approach*, the fact that thermal and coking coal mining operations can still be financed means that the bank avoids covering coal combustion's impact on climate change. Thus, the bank is demonstrating readiness to be further engaged in financing of coal mining without taking responsibility for the future emissions and climate change impacts these projects would contribute to by freeing up companies' resources.

Governments in transition countries with abundant coal reserves are often determined to use them, in spite of all the scientific evidence of coal's contribution to climate change, environmental and social negative impacts and the need to put an end to coal combustion globally. If these countries are adamant in sticking to this path, there should be no role for public money to support them in doing so, especially if this support distorts the market non-competitiveness of coal and keeps the sector on life-support.

For these reasons, Bankwatch and partner NGOs call for a complete halt by the EBRD to coal mining projects. Financing for closed coal mine rehabilitation may take place, as long as the client's obligations regarding environmental and social benefits are explicitly written in the contract and the results are transparently and periodically reported to the public.

CEE Bankwatch Network

Ioana Ciuta, energy co-ordinator
www.bankwatch.org
ioana.ciuta@bankwatch.org

Health and Environment Alliance - HEAL

Genon Jensen, executive director
www.env-health.org
genon@env-health.org

Re:Common

Antonio Tricarico, program director
http://www.recommon.org
atricarico@recommon.org

[2] Oil Change International: The Sky's Limit: Why the Paris Climate Goals Require a Managed Decline of Fossil Fuel Production, 22 September 2016, http://priceofoil.org/2016/09/22/the-skys-limit-report