

## Theory and Practice:

### European Investment Bank Case Studies

Concrete examples of problems with the European Investment Bank (EIB) are highlighted in the following case studies, which support NGO demands for urgent reforms. The five case studies cover examples within the European Union (EU), Accession Countries and outside Europe. They clearly illustrate the deficiencies of EIB projects with regard to their implementation, monitoring and environmental and social impacts.

#### **Val d'Agri - Italy**

*In the EU, as well as in the Accession Countries, all projects financed by the EIB should comply with both national and EU environmental law, including the EIA directive (EIB Environmental Procedures Paper).*

On 1 December 1999, the EIB announced that it would be giving a 200 million Euro loan to Enterprise Oil Italiana SpA., an Agip controlled company, to develop two oil fields in the Southern Apennine mountains of the Val d'Agri area, in the region of Basilicata. The financing includes the development of an oil storage plant and pipeline with the aim of vastly increasing oil production. In the past 6 years, the EIB has been funding the expansion of Italy's energy system mainly through the promotion of projects in the oil sector. The first loan to develop Val d'Agri oil was disbursed in 1996, and until now total loans for the project have amounted to 607 million Euros.

ENI/Agip, the group implementing the project, signed an agreement with the Basilicata regional administration in 1998 for implementation of a 10-year environmental mitigation plan. This is supposed to include an environmental monitoring system, an environmental observatory, a regional energy utility and a sustainable development

plan funded with US \$1.8 million a year. So far ENI has not complied with any of those commitments.

The Val d'Agri National Park was formally established in 1998, with a deadline of June 1999 for the fencing in of the area. Yet as ENI oil drilling sites have expanded, the proposed area for the National Park has decreased. Meanwhile, the Industry Ministry has given new licenses to open up new wells in the Park area and to carry out explorations by the reflection seismic method in the entire area of the Park. The Environment Ministry did not apply the national safeguards and national legislation in protected areas, which give higher priority to environmental conservation than fossil fuel development and prohibit geoseismic explorations.

Exploration drilling was carried out before licenses were released and without any Environmental Impact Assessment (EIA) study being produced and made public in advance, in clear violation of laws on EIAs. To date, the Park has not yet been fenced off and it will be smaller than planned with several valuable areas not being included. Some EU sites of Community Importance are located within the Park area, specifically in areas affected under different EU directives. The whole groundwater system, as well as the Agri River, is under threat from the impact of the drilling of wells.

On top of all this, it is unclear whether adequate EIAs were carried out prior to the exploration and extraction activities. EIAs in the areas located in the Val d'Agri National Park have never been made public, and no evaluation of the seismic risk in the valleys and along the pipeline have been done. No evacuation plan for local communities has been made in case of an oil spill.

The creation of jobs for the local population in Southern Italy was projected as a positive impact of the oil projects, but so far the number of new jobs has been minimal, with the majority being specialised and unsuited to local skills. Indeed, the National Park would have created more employment than oil activities in the region. Moreover, there are concerns about the impact of oil operations on human health, especially production of sulphur hydrogen, which is highly dangerous, during drilling.

The EIB financing of the Val d'Agri project shows that the Bank is still very much in favour of funding large scale projects which are highly environmentally and socially unsustainable regardless of its so called commitment to renewable energy and public participation. This case highlights how the EIB has not assessed the environmental impacts of the project nor been concerned of violating Italian and European environmental law.

**Since 1996, the EIB has lent about 2554 million Euros to increase fossil fuel energy production, while only 237 million Euros has gone to support projects promoting clean energy.**

*For more information see:*

[http://www.bankwatch.org/publications/issue\\_papers/2002/eib-ip-vald'agri.pdf](http://www.bankwatch.org/publications/issue_papers/2002/eib-ip-vald'agri.pdf)

*Reform the World Bank Campaign*

<http://www.crbm.org>

## **Slovak Railways - Slovakia**

The Slovakian public transport system has slowly been disintegrating since the split of Czechoslovakia in 1993. Emphasis has moved away from public railway transport to the construction of highways. International Financial Institutions (IFIs) have facilitated this transition by pressuring the Slovak government to eliminate subsidies for public transport systems. Moreover, a culture of corruption, together with increasing debt burdens within Slovak Railways and the government, has meant that public transport has suffered, seriously affecting rural regions dependent on transport and the environment.

For the rehabilitation of its railway, Slovak Railways was provided with a 200 million Euro loan by the EIB in 1999. The loan came with a number of conditions that were implemented as part of the 'Slovak Railways' Economic Stabilisation and Transformation Plan'. These included:

- an increase of prices for personal transport by 30% within a year,
- a cut in state subsidies to Slovak Railways until 2007 to a level of less than 31% of 1999 levels,
- a cut in the payroll by 30% by 2007 (i.e. 18000 employees being made redundant),
- shut down of freight railway stations by 20-25% and the sale of unused freight wagons,
- a reduction in the size of the railway network by closing or privatising 32 lines.

There was no public discussion about the EIB conditions for the loan. The outcome has been cuts in state subsidies, an increase in train fares, the closure of a several regional lines and a decrease in passengers. The loan has had negative social and economic impacts, especially on the poorest people from underdeveloped rural regions that are dependent on public transport. Pollution levels have risen due to an increase in traffic of people and freight by road. The EIB denies its responsibility for

rail network reduction.

Several NGOs<sup>1</sup> have requested that the EIB, the Slovak Ministry of Transport, Post and Telecommunications, and Slovak Railways disclose the loan agreement, including conditions and timetable of their implementation as well as other documentation such as environmental assessments that were made in connection with the loan. Yet because of the inclusion of a confidentiality clause in the contract, none of the documents has been released. According to the EIB, it is left to the promoter and/or the competent authority to decide if access to the contract details is allowed, yet the Slovak government authorities claim that the agreement signed with the EIB does not allow for the disclosure of the loan conditions or the time of their implementation.

In the case of a loan to a public institution there is no valid reason for hiding the details from the public through such confidentiality clauses. In this case, information was withheld despite the public status of all parties - the EIB, Slovak Railways and guarantor the Slovak government.

*For more information see:*

<http://www.bankwatch.org/issues/transport/slovakrailway/mslovakrailways.html>

[http://www.bankwatch.org/issues/transport/slovakrailway/downloads/article\\_eibloan\\_04-03.html](http://www.bankwatch.org/issues/transport/slovakrailway/downloads/article_eibloan_04-03.html)

<http://www.bankwatch.org/issues/eib/meib.html>

*Center for Environmental Public Advocacy*

<http://www.cepa.sk>

*Friends of the Earth Slovakia*

<http://www.foe.sk>

*CEE Bankwatch Network*

<http://www.bankwatch.org>

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<sup>1</sup> Center for Environmental Public Advocacy, Friends of the Earth Slovakia, and CEE Bankwatch Network.

## **Chad Cameroon Pipeline – Chad & Cameroon**

In July 2000, the World Bank and the EIB approved loans for the drilling of 300 oil wells in Chad and the construction of a 1050 km pipeline running from the Doba oilfields in Chad through Cameroon to the Atlantic coast. The EIB is financing a 144 million Euro loan, the recipients of which are the governments of Chad and Cameroon and a consortium of oil companies including Exxon Mobil, Chevron and Petronas from Malaysia. The pipeline runs through natural forests and farmland, including the land of Indigenous People in Cameroon.

The project was intended to show that oil exploitation could alleviate poverty by promoting economic growth through private sector development of the oil reserves. However, it is far from certain that even if money is generated by the project it will actually reach those in poverty. This is especially the case with Cameroon listed as one of the most corrupt governments in the world by Transparency International and Chad currently facing political instability. The World Bank claims that it is the most scrutinised project in its history, yet international NGOs and major donors maintain that it will have adverse ecological, social and human rights impacts.

The consortium has carried out two EIAs, yet neither addressed key environmental concerns. These include the loss of biodiversity due to deforestation in Cameroon, and potential water contamination through leakage where the pipeline crosses rivers.

The pipeline will pass through a population of semi-nomadic hunter-gatherers in Cameroon. The Indigenous Peoples Plan, submitted pursuant to World Bank policy, does not ensure full participation of these peoples in the project, nor does it address the lack of government commitment to implementing the plan. In Chad, the development of the oil fields has led to the

escalation of already existing conflicts between the largely Muslim government and Christian rebels in the south. In both countries, studies have shown that resettlement figures have been underestimated, along with proposed levels of compensation to local people.

*Climate change and development mandate:*

EIB financing of the pipeline clearly shows that regardless of its supposed new emphasis on renewable energy, it will contribute substantially to climate change through projects such as the pipeline. Moreover, the EIB should act in accordance with the objectives of the Cotonou Agreement, which are reducing poverty consistent with the achievement of sustainable development, respect for human rights, democratic principles, participation of a wide range of non-state actors and contributing to a stable political environment. This project is inconsistent with all of these principles.

In January 2000, the European Parliament recommended to the EIB that it not contribute to the financing of the project under the Lome convention. Despite the negative recommendation, the EIB went ahead and granted the loan.

*For more information see:*

<http://www.bankwatch.org/issues/eib/mngo/materials.html>  
<http://www.bankwatch.org/issues/oilclima/mainchad.html>

Both Ends

<http://www.bothends.nl>

Campaign to Reform the World Bank

<http://www.cbrm.org>

Friends of the Earth International

<http://www.foei.org>

## **Lesotho Highlands Water Project – Lesotho**

The Lesotho Highlands Water Project is the largest civil engineering project in Africa. Five large-scale dams will divert 40% of the Senqu/Orange River before the water is piped through 200 kilometres of tunnels in the Maluti Mountains and then delivered into the South African Gauteng River. The EIB lent 20 million Euros for the project phase 1A and is also financially supporting phase 1B with two loans totalling 54 million Euros. The World Bank, the Africa Development Bank, the European Development Fund, European bilateral aid agencies and some export credit agencies are also supporting the project.

No comprehensive EIA was made for Phase 1A, nor were erosion or sedimentation studies conducted. The indications are that the ecology of the Senqu/Orange River will be severely disrupted and the project will flood Lesotho's most fertile land, the only area producing a surplus. Many households have been relocated, some of them forcibly, and overall thousands of people will be affected. Until now, the compensation packages have been inadequate or unfulfilled, with too little replacement farmland being given, and many forced to find new livelihoods.

To add to this human misery, the project has also been mired in corruption. The head of the Lesotho Highlands Development Authority accepted bribes from many of the international companies involved in the construction of the dam. Lastly, five Lesotho workers were killed when the consortium of companies building the dam called the police to evict workers from the construction camp, shortly after sacking 2300 Lesotho workers for 'illegally striking'. The workers had been striking against the unequal treatment of workers from Lesotho compared to those from other countries. They were also protesting against police harassment and the contractors' dismantling of negotiating structures set up with the local union.

The former chief executive of the Lesotho Highlands Development Authority, Masupha Sole, is currently serving 15 years in prison for accepting bribes from several international contractors and consultants. The national court in Lesotho has until now found two Western companies guilty of bribery: the Canadian construction and engineering company Acres International and Lahmeyer International, a German engineering contractor. A case against French construction company Spie Batagnolles is currently in the court, while a couple of other companies, including Italian Impregilo, are awaiting trial.

Regardless of the corruption, bribery scandals, the deaths of the construction workers, and the severe social and environmental impacts of the project, the EIB has gone ahead with the financing. Proper EIAs have not been carried out, and public participation in the project has been negligible, while compensation packages have either been inadequate or failed to materialise.

*For more information see:*

[http://www.bankwatch.org/publications/issue\\_papers/2002/eib-ip-lesotho.pdf](http://www.bankwatch.org/publications/issue_papers/2002/eib-ip-lesotho.pdf)

Campaign to Reform the World Bank  
<http://www.cbrm.org>

### **The Karahnjukar Hydropower and Reydaral Aluminium Smelter Project - Iceland**

Europe's second-largest remaining wilderness area, Iceland's Central Highlands, is being threatened by a series of large dam projects that are planned to power heavy industries in Iceland. The Karahnjukar Hydropower Project, costing more than US \$1 billion, will generate electricity to power an aluminium smelter to be built by Alcoa, the largest aluminium producer in the world, on the coast of Iceland.

The project, consisting of nine dams, three reservoirs, seven channels and sixteen tunnels, will have massive impacts on Iceland's fragile environment, spoiling and flooding many significant landmarks and affecting about 3% of Iceland's landmass. Rare vegetation, the habitats of seals, reindeer, fish and pinkfooted geese are threatened. Moreover, the project is located near the world's most volcanically active area, and has geological risks that, according to experts have not been adequately addressed. A series of lawsuits and complaints have already been filed, and the Iceland Minister for the Environment is being sued for her decision to approve the project.

The smelter will consume most of the electricity generated by the project, and the Iceland government has agreed with Alcoa that the price they pay for electricity will be linked to the future price level of aluminium on the world market. Yet it has been calculated that this will most likely be insufficient to pay for the costs of the project with Iceland's taxpayers having to bear the burden of these losses.

Once built, the smelter will emit large amounts of carbon dioxide and other greenhouse gasses. Currently, there is no global need for the aluminium that would be produced by the new smelter, and Alcoa is shifting its smelting capacity to lower-cost countries like Iceland only as a cost saving strategy. Yet if recycling of aluminium was improved, there would be no need for new smelters and hence the Karahnjukar Project.

Even so, the Icelandic government has signed a contract with Alcoa in order to develop the project. However, the government cannot afford the cost of it alone, and has therefore turned to foreign funding sources planning to raise funds from the EIB, Nordic Investment Banks and private banks. 120 environmental organisations from around the world urged financial institutions not to fund the

Karahnjukar Project, and several wrote to the EIB not to approve support for it. On July 28<sup>th</sup>, the EIB announced that it would not finance the project, citing reasons of non-eligibility of the project for EIB financing. It is one of a few cases where public pressure is likely to have forced the Bank to seal its involvement.

The project was not in line with the EIB's Corporate Operational Plan, which prioritises support for innovative technologies, environmental projects, small and medium-sized companies, and the social and economic cohesion within the European Union. If the EIB has supported the Karahnjukar Project, it would have been undermining its environmental guidelines as well. Moreover, the EIB's information policy still allows national governments to keep their project proposals to the Bank confidential, and therefore public access to information was not guaranteed. Lastly, the main contractor for the dam and tunnelling contracts was the Italian company Impregilo, which had previously been involved in corruption allegations in the case of the EIB backed Lesotho Highlands Water Project (See above).

*For more information see:*

<http://www.bankwatch.org/issues/eib/karahnjukar/mngoreports.html>

International Rivers Network  
<http://www.irn.org>

The Iceland Nature Conservation Association  
<http://www.inca.is>

Friends of the Earth International  
<http://www.foei.org>

Reform the World Bank Campaign  
<http://www.cbrm.org>

**Further reading and information:**

EIB response to some of the controversial projects  
[www.eib.org/news/subcats.asp?cat=4](http://www.eib.org/news/subcats.asp?cat=4)

Bankwatch website: [www.bankwatch.org](http://www.bankwatch.org)

EIB website: [www.eib.org](http://www.eib.org)

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**European Investment Bank fact sheets:**

*Fact sheet 1:* Invisible Power in the European Union: The European Investment Bank

*Fact sheet 2:* European Investment Bank: Basic Facts

*Fact sheet 3:* Kafka's World: European Investment Bank's Information Policy

*Fact sheet 4:* The European Investment Bank and the Environment

*Fact sheet 5:* The European Investment Bank's Role in Development

*Fact sheet 6:* Theory and Practice: European Investment Bank - Case Studies

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	<p>Production: The EIB Campaign Coalition coordinated by CEE Bankwatch Network and Friends of the Earth International 2003</p> <p>For more information contact Magda Stoczkiewicz: <a href="mailto:magdas@foeeurope.org">magdas@foeeurope.org</a>          tel: +31 20 622 13 69</p>	
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